BLOCK GRANTS: THE VIEW FROM INDIANA

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

OF THE

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BLOCK GRANTS: THE VIEW FROM INDIANA

WEDNESDAY, SEPTEMBER 2, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GOALS
AND INTERGOVERNMENTAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 8:30 a.m., at the Hyatt Regency Hotel, Indianapolis, Ind., Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Present: Representatives Hamilton, Evans, and Jacobs.

Also present: James K. Galbraith, executive director; and Mary E. Eccles, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE HAMILTON, CHAIRMAN

Representative HAMILTON. The subcommittee will come to order.

This morning—following 2 days of hearings in Washington in July—the Subcommittee on Economic Goals and Intergovernmental Policy of the Joint Economic Committee resumes its examination of the effect of consolidating categorical programs into block grants. Today's hearing, which will consider how the shift to block grants will be accomplished in Indiana, is particularly timely.

Last month, as part of the fiscal year 1982 budget process, Congress established new block grants in the areas of health, education, and social services; and it broadened the scope of the existing community development block grant. The budget measure also significantly reduced funding for programs being combined as block grants. Further cutbacks in appropriations could occur later in the year. While congressional action with respect to block grants did not go as far as President Reagan wanted, it was important because it will change the course of federalism in the 1980's.

The subcommittee's hearings in Washington, held on July 15 and July 22, sought the views of several academic experts on block grants. The views of national representatives of State and local officials were solicited as well. Adding to this overview, our witnesses today will describe the plans being developed in Indiana, both to implement block grants and to adjust to the reductions in Federal assistance.

The central questions of the hearing are these: What changes should we expect in various programs as a result of block grants? Will the approach improve administrative flexibility and prompt the State to alter the mix of programs? Will block grants introduce efficiencies that cut program costs, thus mitigating the impact of the

Federal budget cuts? In the individual areas of health, education, and social services, how much of the cutback in Federal aid can be absorbed through consolidation of programs and how much may be financed from other sources of State and local revenue?

Perhaps the most fundamental question is this: Do block grants mean that services will be delivered more efficiently and effectively overall, both from the point of view of providers and from the point of view of recipients?

My colleagues and I are interested in the administration of block grants in Indiana. At the Washington hearings, concerns were raised about the general preparedness of States to assume responsibility for block grants. Questions were asked about the ability of States to direct assistance to those in greatest need. From today's testimony, I hope to gain a clearer understanding of how the distribution of block grants will be determined in Indiana. I also hope to learn what administrative changes are being taken and will be needed for a smooth transition to block grants.

To open our testimony this morning, we are very pleased to have with us the Governor of Indiana, Robert Orr.

Before turning to the Governor, I would like to introduce for a comment, if he would like to make it, our Congressan Dave Evans.

Mr. Evans.

OPENING STATEMENT OF HON. DAVID W. EVANS, A U.S. REPRESENTATIVE IN CONGRESS FROM THE SIXTH CONGRESSIONAL DISTRICT OF THE STATE OF INDIANA

Representative EVANS. Thank you, Mr. Chairman.

Welcome, Governor Orr. We are very pleased to have you with us at this hearing this morning. I think Congressman Hamilton should be congratulated for conducting this hearing here in Indiana on a subject matter that I think has yet to become very clearly understood on the part of many people.

As the budget this last month adopted by Congress and signed into law by the President makes clear, there will be many changes in the coming years, not only in terms of the funding level of various Federal programs but in how those programs are administered. I think the questions that are central to this hearing here this morning are really among those most basic and fundamental questions that will need to be answered regarding the changes in the budget and the direction of many Federal policies in the years to come.

Thank you, Mr. Chairman.

Representative HAMILTON. Thank you, Congressman Evans.

I see coming into the room, at the moment, Congressman Jacobs. I will not ask him to comment now, unless he would like to. Pehaps you would like to defer a comment, Congressman Jacobs, for a few minutes.

Representative JACOBS. Yes.

Representative HAMILTON. I understand that Congressman Dan Coates has a representative here, Maggie Galene. We are very pleased that she is here. If there are other representatives from the senatorial or congressional offices, I would be pleased to be notified, and I will announce it.

Governor, we are delighted you are here. We understand you had a tight schedule coming in this morning from wherever. Milwaukee, was it?

Governor ORR. Milwaukee, yes.

Representative HAMILTON. So we are especially appreciative of the fact that you made that special effort to be here. We welcome you before the subcommittee and we look forward to your testimony.

STATEMENT OF HON. ROBERT D. ORR, GOVERNOR, STATE OF INDIANA

Governor ORR. Thank you, Mr. Chairman and Representatives Jacobs and Evans. I appreciate the opportunity to join with you in what is an important hearing.

I do come straight from the Midwest Governors Conference which has been taking place yesterday and the day before in Milwaukee, and I can assure you that there were a good many discussions during that period of time relative to the block grant program, although less so than at the National Governors Meeting earlier, or I believe last month, actually, in August. There was a presentation yesterday morning by Director David Stockman, Office of Management and Budget; and there are perhaps some matters that might come up during your questioning which I could be of assistance in, in relationship to some of the things that he said.

Let me make a point that the final passage of the reconciliation bill last month and the approaching consideration of the appropriations bills, which you have before you for action this month, make these hearings very timely. And it's important and I compliment you that you are holding the hearing here in Indiana, as well as the ones that you have held previously, for the enlightenment of all of the participants as well as the public generally. It's the kind of dialog which will help all of us that are interested in new federalism to become better educated and it will stimulate, I think, a good deal of better understanding of the direction we are trying to go.

I think at any level, it's the function of Government to provide services for citizens that can't provide those services themselves. If that is one of those fundamental beliefs in Government, my answer to that is yes; and I think a block grant concept is a logical approach to making that possible. State and local governments, with properly defined block grants, I believe can deliver the federally funded services effectively. A little known fact seems to be that we already do so. Inasmuch as the Federal Government really doesn't have any delivery system of its own, these services have been delivered by State government or by local government; and the concept of the block grants is that they would provide more flexibility for States and local government, which has not been possible under the categorical system.

I think that it is in response to what the people asked for last fall; and we're all aware of the fact that the President had placed in primary importance a reduction in Government spending, a reduction in taxes, and a reduction in the regulatory process. I think that this is all a part of that, and I think that now it is important—and I think it's important to emphasize the fact—that the President has indicated

that he's going to go back, on a continuing basis, to attempt to cause the block grants that now are in existence, as well as those that will come on in the future, to be as flexible as possible. I think this is shared by certainly those of us in State government, and I am confident that the initiatives of this administration—and Congress in support of it—are in response to the public's desire for a rebound in our economy.

Let me make a comment aside that we spent most of our time at the Midwest Governors Conference analyzing where we are in the state of the economy and where we ought to go in giving a good deal of attention to how to handle the situation so that the Midwest can once again be revitalized to the point of being the leading economic factor in the country. We were unanimous on that.

I might also, just as an aside, indicate that nine Republican Governors at that conference unanimously supported the election of the one Democrat Governor, John Carlin of Kansas, to be our leader for the forthcoming year, which shows the bipartisanship of our approach.

Representative HAMILTON. We commend you for your good judgment.

Governor ORR. I think we need to approach our work in two ways, but right now we are talking about short-term factors and I think we need to take a look at the long-term ones, which is what we were engaged in, in Milwaukee. I think that there was a general belief there on the part of the people from the private sector that maybe the reaction on Wall Street was too much related to the short term and not enough related with the potentialities for the long term.

In fact, it was even stated by some people who represent financial institutions on Wall Street that the people down there just don't believe that what is happening is actually taking place. And I know that not all of you up there at the head table share that point of view—and I notice that Congressman Jacobs smiles. But nonetheless, I think there was an attitude prevailing—even among those that were not too encouraged to believe that we will see a quick turnaround—that we are headed on a different and therefore improved track.

Let me make a point that our goals are—I think all of us— to offset a 25-percent reduction, which is what the President outlined, with the utilization of the block grants. This would be accompanied by minimal Federal requirements and maximum flexibility. You yourself indicated that Congress isn't fully satisfied with the product, because instead of there being 86 categorical grants folded into the block grants there are only 57; and many of the actions taken by Congress—and I will deal with a couple of specifics later on—have restricted the administrative flexibility which would be desired by the States and I think also by local government.

In fact, there are some of the grants which really don't deserve to be given the label of "block grant," because of the constrictions that are placed upon them. This, in response to one of your questions, will make more difficult the delivery of services as well as offsetting the impact of the reductions. It was our belief, and I know that the administration and I think Congress's belief, that by eliminating and making more flexible the system of delivery that we would be able to use more dollars for delivery to the people and less for overhead purposes; and I am afraid we may not be able to accomplish that as we would want.

Our Washington office has estimated that we will have a $25 million impact as a result of the programs that are now in place. In the Federal fiscal year that we're now in, Indiana received nearly $204 million for the categorical grant programs that are now encompassed in these block grants, and we estimate that we will receive just under $180 million—those are estimates, of course,—in the fiscal year 1982.

I think it's important to indicate straightforwardly that we will not be able to pick up these lost Federal funds, by any means, in entirety. We simply can't afford to do so from the standpoint of our own revenue sources; and, there is so limited a flexibility that I am afraid that the overhead factors will still be in place. But it is our desire that our limited resources will maximize the services to the elderly, the needy, disabled people, youth and so on, all of those that are covered by those block grants. We may use the community development block grant funds to assist communities of less than 50,000 in stimulating business and industrial development, for example, and thereby broadening the tax base of those communities and of the State.

I think it's important that it is understood that States are not going to hike taxes to pick up Federal funding curbs or cuts which were put in place. I think the Governors, regardless of party, are unanimous on this. That was the case at the National Governors Meeting where a poll was taken by a disinterested group, and not a single party could be found that was interested in increasing taxes to offset the reduction. We think that the people want Government to reduce these costs; and therefore, the only way to come by that is to stick with the budget cuts and not add back on again at the State level at this point.

That means then that Governors and legislatures will be forced to pass the Federal cuts on down the line. That's not going to be easy, because it will be up to us to make some very tough decisions. We're prepared to move ahead with this program, however, which even with limited budget flexibility—as a consequence of tying some more strings on things—are better, in our opinion, than what was the case in the past.

Government at all levels needs to do a better job of communication and coordination if our scarcer resources are to be stretched in order to make it possible for us to do what we want to do. We will have to set priorities. And it's apparent that the sometimes adversarial relationships which have existed between the Federal and State Government and local government will really have to come to a halt if we are going to do our jobs right.

There is prevalent an attitude that State government ignores the needs of localities. Let me make a point that even now the budget that we had in place up until June 30, 1981, saw appropriations of $4.79 billion from State funds. Local government's share of that total, for all kinds of purposes, was $2.62 billion, or 54.3 percent of the total amount of State moneys. Most of those moneys were delivered to local units of government with absolutely no strings attached or very minimal ones. It is a classic example, I think, of unknown revenue sharing which goes on annually. This is really no different than it has been for a long time except that the dollars grow larger.

I think these figures illustrate the fact that State government is accustomed to dealing with local government and providing them assistance in the way of funding. I believe that it is apparent that we

actually provide far more resources to localities than the Federal Government does, if you will match those figures that I have given you with the kind of funding going to local government directly from the Federal Government at this time.

I don't think this means that substantial sums of Federal funds that now go to the localities, but soon will be destined to flow through the States, will be diverted for other purposes. Obviously, there will be some priorities set, but we're going to do that in conjunction with local government officials and the people that they affect. I don't think anybody, whether he is in the Federal, State or local governmental scene, but particularly the Governors and legislators, can possibly ignore these facts or none of us will be around very long.

The analysis by the National Governors Association shows that only 5 percent of categorical funds that we're talking about actually bypass the State at this time. In other words, most of them now pass through the hands of State government as categorical grants.

Another concern is that State government might absorb these funds under these new arrangements, but I think there have been enough strings applied and the maintenance-of-effort concept put in place so that this couldn't possibly take place even if there was a desire to do so. And I don't think there is that desire. I think I should make the point that we have already a good record. Let's take title XX, which is one of the programs which does resemble the block grants which we have administered now for a number of years at an administrative cost level, let me make the point, of a little over 3 percent. To put it another way, more than 96 percent of all the title XX funds have gone directly to the social services involved.

It's important also to take note of the fact that our public welfare is costing us administratively in the State of Indiana only 3.04 percent at this point. In other words, it costs us $16.5 million to administer $541 million of Federal funds that are ours to deal with.

I don't think the recategorization will take place, as I have indicated, and I don't think we have a desire to do so. I don't think that concern is justified; and I think the fact that we in Indiana have worked very diligently on our own paperwork problems, on our own administrative costs, is an indication of that fact alone. But I think it is our desire to increase the help that we can provide to local government and to the private or independent sector organizations that are affected by these block grants.

Let me make the point that I philosophically support the block grant program. I have said so. I have been present for four meetings in the White House where I have spoken very strongly on that with the President and his people. I have done so publicly all along. I think it's important to recognize that the Governors, as I have indicated, approach this subject on a bipartisan basis. I think we have good reasons for doing so, because I think we are a part of this change that is taking place in the country today and we want to be in a position to deal effectively with it; but we do believe that there needs to be more flexibility and that is one of the things that I would hope that you all would set a course of action to obtain, not only in the future but as you take a look at the appropriations process in the month of September, because there will be an opportunity for you to respond to some of those concerns at that time.

One of the things that does bother us is the opportunity for transition. It's true that you did provide a mechanism, as you went along, for opting in over a period of time. If we don't choose to do so on the first of October, we can do so during the phase-in period on a quarterly basis thereafter. It would be our desire, if we could, to opt into all nine block grants on the first of October, but we don't believe that we are going to be able to do that. It is terribly important that we do so at the earliest possible moment. And I wish that the transition that was asked for—as a matter of fact, that I asked for specifically in one of those meetings in the White House—could have been actually taken fully into account so as to make sure that we could opt in.

Let me make a case-by-case explanation, to the degree there is time, of what the problem is at this point. We do plan to opt into three of the block grants—preventative health care, alcohol, drug abuse, and community health, and community services—and we'll do so on October 1. Now, there's a "rub" with the other six. For example, the General Counsel of the Department of Health and Human Services has held, and he has advised us, that States have no options on three additional block grants because the title XVII transition provisions that were put in by Congress do not apply to energy assistance, maternal and child health, and social services block grants. Therefore, we are in these on October 1 regardless of our preference.

The failure to provide a transition creates a problem of major significance for Indiana, which probably wasn't really considered by Congress. The social services or title XX block grant no longer requires, by your action, a State or local match. Indiana has already appropriated its match for the biennium, our State biennium, beginning July 1, 1982, and running until June 30, 1983. Did I say 1982? I meant 1981, for the 2 years from July 1, 1981, to June 30, 1983.

Our legislature, as you know, is not in session. There is language in our budget bill, and the question of where we are lies with that language as to whether the State match dollars can be used in the absence of the language in that budget bill which says it must be used only as a match and under requirement for a match. This has been in existence in our budget bill not just this year but for several years in the past—I think maybe ever since title XX has been present. It is an evidence of the concern that the legislature had of varying levels of funding at the congressional level, or a change in the degree of match that would be required. And therefore, the legislature, in its wisdom, decided to put this language in.

As a result, assuming that Indiana cannot use the State match, we must absorb at the same time almost a 12-percent cut in title XX funds from the Federal Government; and, the fact that we can't use the match will probably mean that we have something between a 36- to 37-percent cut in the funding for those social service programs. That is a very serious reduction, one which I don't think any of us want to see happen. It may well be that in the appropriations process Congress can do something to alleviate that problem. I am at work with Secretary Schweiker; I brought this to the attention of Budget Director Stockman yesterday. And I think there may be one or two other States that have somewhat comparable difficulties. This really occurred because there wasn't the same kind of transition allowed for these three block grants as in the other set of circumstances.

Indiana won't be able to deliver all of the hot meals that it wants. There will be fewer units of money for day care and fewer for all the other services that are so important in that social service area. Our hope is that you can change it or that we can get it changed administratively, and we will keep our attention devoted to that.

We are also investigating State alternatives, but that, I am sure, will not be something that we can accomplish until after the legislature comes into session in early November, at the very earliest. We could probably do that in the single day of session that takes place at that time.

We also had some problems with the community development block grant language. I am not going to go into the detail there, except for the fact that we must provide $620,000 in presently unappropriated State dollars in order to participate in this block grant, in order to obtain the more than $31 million going to communities of 50,000 or less. I think, because of the way that the contracts are written for community development block grants and the fact that they will extend, the current ones that are now in use extend beyond the legislative period next year, we can modify and make the necessary change so that we will be able to opt in at some point subsequent to the legislature's action. I don't think this will impair the program in any way, by our doing that.

The education block grant, as you know, is forward funded; and therefore, there is no need at this point to opt into that block grant. The primary health care block grant does not actually become one until Federal fiscal year 1983, so there is no reason to do so at this point. The main area of concern, therefore, is relative to social services. We will opt into the other three at a later point as rapidly as we can so as not to lose any momentum whatsoever.

We hope Congress will use this appropriations process to improve the flexibility for the States and to remove some of the maintenance-of-effort requirements. We hope we can convince you that we are going to maintain that effort to the maximum degree that we can. And there are some other specific requirements that perhaps could be changed.

We have developed a comprehensive program for the implementation of block grants, which is something that I know the people are concerned about, the providers are concerned about, the receivers are concerned about and I think probably Congress is concerned about. We have set up a block grant policy committee, made up of some people from the administrative and legislative leadership. We have named a block grant manager, so that we can get this program implemented throughout all the agencies that are involved.

We have nearly completed the appointment of all of the people on four task forces which will conduct public hearings on the block grants around the State so as to get citizen input as well as to convey the message of what is going on to those who wish to come and participate. We will have these going on during the months of September and October. We have waited until this point because of the fact that we are having great difficulty in finding out ourselves some of the details about the block grant program. After you all left, why, we have been working with the agencies of Government in Washington to attempt to get all of that information together and we're gradually doing so.

We have surveyed our departments that will be involved in these hearings also, on the impact of the block grant program. We have a timetable. We are sharing and coordinating information with the general assembly leadership. We will provide involvement for local units of government, for providers and for everyone that is involved in this whole process. We are moving ahead expeditiously and we are bound and determined to provide good service in this change of direction which we're all involved in.

We want to minimize the impact of the Federal funding cutbacks on recipients, and that will require us to cut back somewhat on our own staffing levels. But it needs to be understood—and the constant question is asked as to how many people we will have to add—that we have been dealing with all of these programs up until this point on a categorical basis; therefore, the need to expand our personnel is not necessary. We will need to try to provide ourselves with a more efficient operation.

I don't intend to make a point that this is all going to be easy. It's no piece of cake. It will involve some tough decisions. But the point I wanted to stress is that Indiana is ready. It's making itself even readier and we're willing to assume these responsibilities. We want to work with you. We want to indicate to you as we go along the things that we believe Congress needs to know about, so as to make changes just as we are doing right at this very moment.

We thank you for coming out here so that you can hear directly from me and from others at the local level and from the providers of service as well as those who are on the receiving end. I look forward to the day when we can function more effectively as working partners, and that is really the primary reason why I was quick to accept your invitation to be here this morning to present this information as well as to answer such questions as you may have.

Thank you.

[The prepared statement of Governor Orr follows:]

PREPARED STATEMENT OF HON. ROBERT D. ORR

Mr. Chairman and members of the subcommittee: I appreciate the opportunity to join you for your hearings on block grants and the intergovernmental system.

Final passage of the reconciliation bill last month and the approaching consideration of the appropriations bills make these hearings timely and important. I compliment you, Congressman Hamilton, on the two previous hearings held by this subcommittee in Washington. This kind of dialog will help those of us interested in "new federalism" to become better educated and will stimulate us to strive for an enhanced Federal/State/local system which better serves the people.

Isn't the primary function of government, at any level, to provide services which citizens can't provide for themselves? And to provide those services efficiently and effectively? If the answer is yes, and it is in my opinion, then the block grant concept is a logical approach. State and local governments, with properly-defined block grants, can deliver federally-funded services effectively. We already do, since the Federal Government has no delivery system of its own for most programs. Flexibility for States and localities also allows us to target our resources to meet our most pressing needs, something not possible with categorical grant programs.

In my opinion, the people delivered a message when they elected Ronald Reagan on November 4, 1980. It was that they wanted a change in the economic and governmental direction of this country. The President has interpreted his mandate to include just four points:

(1) a reduction in Government spending.
(2) a reduction in taxes.
(3) a reduction in regulation by Government.
(4) a reduction in inflation through a stabilized monetary policy.

Congress now has passed the budget and tax cuts Mr. Reagan requested to implement his agenda. His Regulatory Reform Commission, headed by Vice President George Bush, already is making inroads into excessive regulation.

It is the President's hope, shared by most Americans, that these initiatives will be the beginning of an economic rebound for our country. Time will be needed for this approach to work and we must forego short-term goals to achieve the long-term results the President sees.

Increases in defense spending and the Reagan administration's desire to continue to provide a security net for those most in need has meant that the brunt of the budget cuts will fall on the States. The administration's goals were to offset a 25 percent reduction by consolidating 86 categorical programs into block grants. The block grants were to be accompanied by minimal Federal requirements and maximum flexibility for the States so the impact of the budget cuts could be offset to some degree by administrative savings.

Unfortunately, only 57 categorical grant programs were consolidated into nine so-called block grants. Action by the Congress severely restricted the administrative flexibility provided to the States. In fact, some of the block grants are so similar to present categorical grant programs that they don't deserve the label of block grant.

The block grant proposals were made by the President as the price to be paid for a 25 percent reduction in funding. This 25 percent level plus an inflation factor of 12 percent means that Federal funding to the States for all programs, categorical or so-called block grants, will be cut about 37 percent.

Our Washington office has estimated that the Federal budget cuts, in the block grant programs only, will have a 25-million dollar impact on Indiana. In Federal fiscal year 1981, Indiana received nearly 204 million dollars for the categorical grant programs now folded into the block grants. For Federal fiscal year 1982, we estimate we will receive 179.4 million dolars. These are estimates, of course.

Indiana will not pick up these lost Federal funds. We cannot afford to do so. What we do intend to do is to use block grant funds and our limited resources to maximize services to those in need, including the elderly, the needy, the disabled and youth. We may use the community development block grant funds to assist communities of less than 50,000 in stimulating business and industry development, thereby broadening their tax base and that of the State.

At last month's National Governors Association meeting, block grants easily were the most popular topic. Any assumption that States are going to hike taxes to pick up Federal funding cuts was dispelled by an Associated Press poll of 30 Governors. None of those Governors who were polled were planning tax increases.

The fact is that the people want all government off their backs, not just the Federal Government. If that is the people's desire, then no Governor is going to propose replacement of lost Federal revenues with State revenues derived from increased State-level taxes.

Quite obviously, with that in mind, Governors and legislatures will be forced to pass the Federal cuts down the line. That will not be an easy task. Some difficult decisions are ahead for Indiana and for all States. However, we are prepared to move ahead with the block grants which, even with limited budget flexibility as a result of congressional string-tying, are better than what we have had.

It is obvious to me that government at all levels will need to do a better job of communicaion and coordination if these scarce resources are to be stretched to do the job, it is also obvious that some priority setting will be required. It is also apparent that the adversarial relationships which have existed between the Federal Government, State governments and local governments must come to a halt.

The attitude that the States are going to ignore the needs of localities must be labeled for what it is—a myth. Last year, the State of Indiana's budget was $4.79 billion. Local government's share of that total, for all purposes, was $2.62 billion, or 54.3 percent.

To me, these figures illustrate that the State is the logical place for coordination of resources to occur. The States already provide far more resources to localities than does the Federal Government and they have a much more direct interest in the needs of their localities and their people.

The argument that the block grant approach means that substantial sums of Federal funds now going directly to localities but soon destined to flow through the States will be diverted to other purposes by the States is as specious as the argument that the States are insensitive to the needs of local communities.

It should be no surprise to anyone here that State and local government operate in the same kind of political/governmental framework as does the Federal Government. Anyone who attempts to ignore that reality, Governor or legislator, will not be around long.

A National Governors Association analysis of the block grant shows that only 5 percent of categorical grant funds bypass the State now. The block grants will not change that figure a great deal.

Another concern arising from the reality of block grants is that the State might absorb unduly large amounts of available resources for administration. The purpose of the block grants is to streamline administration and we intend to do so. We already have a good record. Title XX, which is the one Federal program most closely resembling a block grant, has been administered by the State at a cost of slightly more than three percent. Put another way, more than 96 percent of title XX funds have gone to direct social services. Welfare is another example. Indiana passed $541.1 million in Federal funds to welfare recipients last year. The costs of administering these Federal funds was $16.5 million or only 3.04 percent.

Yet another concern is that the States might use their block grant authority to "recategorize" the programs. In other words, in the absence of Federal regulation, red tape and paperwork, States might use their own authorities to decrease flexibility for local units of government or provider agencies.

This concern is not justified. Indiana has been working diligently to reduce its own paperwork requirements for several years. Our program is so successful that a recent national federation of independent business seminar on the Indiana program attracted representatives from 21 States, and we had already presented the program to nine other States on a one-to-one basis.

Indiana has no desire to increase burdens on local government just because the block grants now make it the focal point for some programs. We desire to deliver services to people who need those services. We want a partnership in that effort with local people and local agencies.

Mr. Chairman, as Governor of the State of Indiana, I philosophically support block grants. Governors on a bipartisan basis support block grants. We believe we have good reason. Changes which make programs less costly to operate and allow more efficient service delivery are what we want. We are willing to share the decision-making process with local government and we hope the Congress, as it deals with block grants in the future, will be more inclined to increase the State's flexibilities so we can provide added flexibility for localities.

I believe you have a right to information as to how Indiana proposes to handle block grant implementation.

First we are pleased that the President and the Congress responded to the States' request for transition provisions for the block grants. It is ridiculous for Congress to believe that States can implement overnight what the administration and Congress take months to create. Some phase-in period is required. With six of the nine block grants, Congress provided some transition time at the request of the administration and Governors.

One of the reasons transition provisions, which I first mentioned to the President and Mr. Stockman at a White House meeting, are so important is because Congress failed to provide the flexibility which President Reagan proposed. I hope, Mr. Chairman, that the Congress will attempt to remedy the lack of adequate flexibility during the appropriations process and increase the State's ability to implement the block grants. You can accomplish that in September and I sincerely hope that you do.

Since we have no assurance this will happen, however, we have had to evaluate what Indiana should do with block grant implementation on a case-by-case basis, even though I would prefer to opt into all block grants now from a philosophical standpoint.

Tentatively, we plan to opt into three block grants—preventative health care, alcohol, drug abuse and community health and community services administration—on October 1. The General Counsel of the Department of Health and Human Services has held that States have no options on three additional block grants because the title XVII transition provisions do not apply to the energy assistance, maternal and child health and social services block grants. Therefore, we are in these October 1, regardless of our preference.

This failure to provide transition creates one problem of significance for Indiana which probably never was considered by Congress. The social services or title XX block grant no longer requires a State or local match. Indiana already has appropriated its match for the biennium ending June 30, 1983.

However, because of language in our budget bill, there is a question as to whether these State match dollars can be used in the absence of a Federal requirement to match Federal dollars.

As a result, assuming Indiana cannot use the 25 percent State match while we must absorb a cut of 11.62 percent in title XX Federal funds, we see the probability of a 36.6 percent cut in funding for social service programs.

This all occurred because the Congress and the General Counsel of H&HS failed to take into account the need for transition for the social services block grant.

Taken out of the abstract, where we discuss change in terms of percentages, and placed in the context of services to people, it means Indiana will be able to deliver fewer hot meals to the elderly, fewer units of day care and fewer of all other services in our current fiscal year.

Had the social services block grant clearly included language which said that the title XVII transition provisions applied, we would have been able to opt into the block grant at a later date, preserve the use of the State match dollars and minimize the dislocations which will occur.

Our hope is that Congress, as it goes through the appropriations process, will act to provide appropriate transition time for this block grant. We also are investigating State alternatives, but the problem was created at the Federal level and should be solved there during September.

Indiana also has some problems with the community development block grant language. For example, the program requires a 2 percent State administrative match in order for Indiana to utilize an equivalent sum of Federal funds to operate the program. This means we must provide 620,000 in presently-unbudgeted State dollars to participate in this block grant, from which we apparently will receive 31.156 million dollars.

The education block grant is forward funded and the community development block grant is on a delayed funding cycle. So there appears to be no urgency to opt into these two block grant programs immediately. The primary health care block grant does not actually become one until Federal fiscal year 1983. so there is no reason to opt into it at present.

We will opt into these latter three block grants as rapidly as we can because we are anxious to move ahead with implementing them.

As I said earlier, we hope Congress will use the appropriations process to improve flexibility for the States and to remove maintenance of effort and other specific requirements to stretch reduced dollars to cover needs. Even with prioritizing of programs, we are going to need every possible flexibility.

Indiana has developed a comprehensive program to implement block grants. Overall direction is provided by a block grant policy committee. We have named a State block grant manager. We have nearly completed appointment of four task forces which will conduct public hearings on block grant implementation throughout the State in September and October. We have surveyed our departments for information on the impact of the block grant programs. We have a timetable for action. We are sharing and coordinating information with our general assembly leadership. We intend to involve providers and local units of government in the processes leading to decisions. In other words, we are moving ahead expeditiously.

Our goal is to minimize the impact of the Federal funding cutbacks on recipients That will probably require us to cut back somewhat on our own staffing levels, a possibility we accept as a challenge to become more effective and efficient.

I do not pretend that what lies ahead will be a piece of cake. I know it will involve difficult decisions. The point I want to stress is that Indiana is ready, and willing to take on the challenge of the block grants. We hope you are willing to improve the block grant mechanisms so we have greater flexibility. And there remains a lot of work for you to do on the 400-plus remaining categorical grant programs.

Mr. Chairman, again I thank you for the opportunity to discuss this landmark change in the direction of our country with you. I fully support the President's program. Indiana stands ready to work as a partner with the Federal Government and with local communities in our State to make block grants work. Personally, I look forward to the day when all three levels of Government are real partners, working side by side and pulling an equal share of the load in delivering services to our people.

Thank you.

Representative HAMILTON. Thank you very much, Governor. We appreciate the excellent statement you have made for the subcommittee. I think it advances our understanding of Indiana's position on the block grants. You have made several specific suggestions to us which can be helpful in correcting some of the problems.

Now, I want to get a picture of your general impression as to what degree services will be cut back. My understanding, from your testimony, is that your chief concern lies in this area of the social services. And I also have the impression that with setting that aside, and with regard to the other block grants, it is your general impression that the State will be able to maintain those services reasonably close to present levels, even though you have sustained fairly substantial cuts. Now, I am not talking about the social services block grants; I am talking about the others. Is that impression of mine fairly correct?

Governor ORR. Yes, I think generally speaking, but there will be cuts and I think everybody needs to understand that fact.

Representative HAMILTON. And that means cuts in services, in health and education.

Governor ORR. And let me make candid once again that because there are certain constraints placed upon those block grants that are of a general categorical nature, it becomes less easy for us to eliminate overhead costs and thereby take those dollars that would go to overhead and deliver them in terms of services, which is our ultimate goal.

Representative HAMILTON. And the social services area is your chief concern at the moment insofar as the delivery of services to those people in need.

Governor ORR. And that's because of this mechanical problem that pervails both in terms of the enactment of the block grant program in Congress and our provision in our own State budget bill.

Representative HAMILTON. The 36–37 percent cutback which you identified in your prepared statement would really be devastating, it seems to me, in the delivery of those services.

Governor ORR. Absolutely.

Representative HAMILTON. Now let me philosophize with you a little bit, if we may, on this whole question of federalism. I have been reading some of the press statements that have come out from the Governors meetings; and I notice the Governors are talking a lot about the so-called swap in which they would take over full responsibility for education, and law enforcement, and transportation, and the Federal Government then would take over the full burden, as I understand it, of welfare. This is part of the general effort of Governors and also officials in Washington, to kind of rethink the designs and patterns of federalism in the country. What is your particular reaction to that kind of a proposal? Did you support that position among the Governors, that particular swap that was suggested?

Governor ORR. This hasn't actually become a position taken by the Governors. It was presented at the meeting for consideration of us all. It was actually talked about in February when we had the meeting in Washington, and this meeting in New Jersey in August carried forward with that concept.

As we have seen this program materialize, it seems to make more sense. We are going to be making an analysis of it during the course

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of the next several months, and probably at the meeting we have in February—it usually takes place at that time in Washington—we will probably have a recommendation to make. I don't think that it is something, rather, for immediate action by Congress. I think it is something that is over the longer pull.

Representative HAMILTON. Your own view is that you want to look at that a little more carefully?

Governor ORR. Absolutely. It's beginning to make some good sense, and I think we could reduce some of the costs of administration of Government with a swapping operation of that kind.

Representative HAMILTON. Now one of the things that impresses me about these block grants is they are a pretty good deal for the Governor. You get the money delivered directly to you. You don't have any responsibility to raise that money, and you get to spend it. It strikes me as being a pretty good deal for a Governor. Now that raises a question right away. How are you going to get the Legislature involved in this thing? Are they going to be passing authorization legislation to help you with the determination of the allocation of the funds? Are you going to be making recommendations to the legislature?

Governor ORR. We have been meeting with members of the legislature and will continue to do so, because I think it is very necessary that the legislature be a part of the decision-making process. Ultimately in many instances, because of the fact that our legislature does go home—unlike some other legislative bodies which seem to stay at work on a more lengthy basis—the Indiana Legislature finishes its business, as a rule, in March or April. That means then that the State budget committee, which is made a bipartisan operation which acts on many things during the interim in conjunction with the administration, will probably be somewhat involved in some of these programs. But ultimately, the decision may well be required to be made by the administration.

And if you think handling programs where there are going to be substantial cuts is anything that the Governor looks upon with enthusiasm, let me disabuse you at this moment. If there was to be a 25-percent increase, Governors love to distribute money on that kind of a basis. But this is going to be tough. It's going to be very difficult indeed; and you are well aware yourselves, from some of the problems in the past where there have been changes in funding, that this is what can occur.

Representative HAMILTON. A number of the Governors are complaining about some loss of revenue because of the Federal income tax cuts that were just enacted. Have you made an assessment on Indiana revenues as a result of that bill?

Governor ORR. We are fortunate in that our tax program policy is not what is called a piggyback; in other words, we do not function with our revenue raising, let's say in income tax or corporate tax, on the basis of whatever the Federal Government does is required then of the State, either to raise or to lower. There is some $13 million of lessening revenue that will come in as a result of some of the provisions that lie in place, but that reduction was taken into account in our appropriations process in the legislative session last winter, so that while we will lose that degree of revenue it doesn't come now as a jolt at this point, you having enacted a tax package which would cause these

reductions to take place. In other words, it was anticipated that it would be a 5–10–10 process.

There are a few elements having to do with some depreciation schedules and things of that kind which we are in the process of identifying, which would probably bring about some slight reductions but nothing of major significance.

Representative HAMILTON. As I am sure you know, the President looks upon the block grant program as an interim step.

Governor ORR. Yes.

Representative HAMILTON. He envisions eventually what he calls a return of the sources of revenue to the States in the so-called revenue turnback proposal. Do you go along with that kind of an approach to federalism generally? Would you support that recommendation? And if so, what kind of revenue turnback sources are you thinking about?

Governor ORR. Well, I wouldn't contemplate that until we had the economy clearly turned around. In my opinion, to a large degree, that's going to be highly dependent upon finally bringing the budget into balance in Washington. From various things that have been said at some of these meetings that I have attended, I drew the belief that it would perhaps be 3 or 4 years before there would begin to be this shift of taxing responsibility at the State level. In my opinion, by that time we would have operated on this new federalism approach long enough so that we'd have much more confidence, in each other, in being able to deal with this, as well as with the responsibilities to local government. And I think that that's a very logical thing for us to move toward, just as I feel strongly that it is very logical for local government to have alternative mechanisms for raising the revenue at the local level and have frequently made that point.

Representative HAMILTON. So that move, if it comes, is distant into the future at least 3 or 4 years, in your judgment?

Governor ORR. I just don't anticipate that it's likely to come to pass. You all may have a better feel of it than the Governors, but I think our point of view is we will be happy to accept it but it will probably be a while off in the future.

Representative HAMILTON. One of the problems that has arisen with block grants in the past is that they tend to trend toward recategorization; in other words, once you enact the block grant, slowly the redtape that has accompanied the categorical grant programs at the Federal level becomes reimposed at the local and the State level as they deal with the problems that exist in all of these programs and administration. What is your comment on that?

Governor ORR. Well, my comment on that is that I think that may well have been the way things have gone in the past. But I think that the measuring of public attitude that takes place informally by all of us who are in public life, as well as those professional organizations that do it as a part of their regular business, indicates that the public is anxious to see Government removed as much as possible from their backs, out of their lives, and that they see the fact that there are more tightly drawn requirements for all matter of things as ending up costing the taxpayer more money. I think those of us that don't pay heed to that simple fact of life are likely to be in political trouble. As we move forward, I think there are far more——

Representative HAMILTON [interposing]. Is that intended as advice to those of us up here?

Governor ORR. I think it's intended for advice to myself as well as to all of those up there and anyone else that is on the receiving end of this information from me.

But it has gotten to the point where the taxpayers are beginning to speak out much more loudly than they ever had to make their point of view known, and I think that the concern in the future is going to be, for all of us, to sort out between the tax spenders—those who are the ones that have the moneys to spend—as to how we are going to balance that off with more suffocation to the taxpayer for more of his wherewithal. And I believe, from my own point of view, that the taxpayers will come out on top in that situation.

Representative HAMILTON. I want to go into some detail with some of your staff people on the comments you have made about restrictions on administrative flexibility in the present block grants. Well, I won't take your time to do that, but I did note your comments on it and I appreciate that. I will be interested in their observations on what kind of restrictions are in there that will cause you and the State administration some difficulty.

Congressman Evans.

Representative EVANS. Thank you, Mr. Chairman.

Given the changes that have been discussed this morning with the Federal tax policies and the fact that the economy may not be turned around for several years down the road, some of the budget reductions, the changes to more of a block grant type approach, is this not going to increase the pressure on Indiana, the State and local governments in this State of ours, to raise State or local taxes within the near future to make up for some of the shortfalls, given the fact that probably all of his loss of revenues from these sources and economic problems are probably not going to be able to be saved through more efficient operation of programs?

Governor ORR. My answer to you, Congressman Evans, is the same as my implied answer earlier in testimony, which is that a survey taken of the Governors—and this was a bipartisan survey a month ago, at the time they were meeting in New Jersey—indicated that there wasn't one of them that saw the value of adding to local taxation—I am talking local, in terms of State taxation or, for that matter, local taxation—in trying to meet some of the new needs that might exist. Indeed, every single Governor that I have been in touch with indicates that his primary role at this point is to cut budgets, and there were several at the Midwest Conference who had been through this exercise recently, those whose legislatures carry forward into the end of July. And their role was to cut, cut, cut, because they see that that is what the public wants and that everything has become overblown.

Indeed, the question that was asked of Director Stockman yesterday by one of the Governors is:

> We have had to cut ourselves. When are you going to begin to cut the people out of the administrative functions in Washington that presumably are no longer going to be dealing in these block grant programs and a whole lot of other things, because our feeling is that your bureaucracy is very much overblown?

This was the Governor of South Dakota that had asked the question. Stockman answered it by saying:

I don't want to telegraph my punches, but next week we will have a program outline which I think may even warm the heart of those of you way up north in the Dakotas who feel this way about it.

Representative HAMILTON. Governor Orr, if I may interrupt. Director Stockman is asking for an increase in personnel and budget for the Office of Management and Budget.

Governor ORR. Well, let me make the point that I think you may hear from Indiana Budget Director Judy Palmer later today, and she has no intention of recommending any request for increases. We're working together to lower the cost of government.

Representative EVANS. Well, perhaps that is one place where those in Washington can benefit from what you are able to do here in Indiana.

Thank you, Mr. Chairman.

Representative HAMILTON. We will follow the example of Indiana.

Governor ORR. Well, I have always thought if we would follow the example of Indiana in Washington we'd be a whole lot better off.

Representative HAMILTON. Congressman Jacobs.

Representative JACOBS. Thank you, Mr. Chairman.

Governor, I would suggest for your own well-being and your good health that you not hold your breath until Director Stockman asks for a decrease or the same budget he has had this year.

Do you know, Governor, who thought up the phrase "new federalism?"

Governor ORR. I have no idea.

Representative JACOBS. I just suddenly started hearing it; and it is applied, for example, to the block grant program. Is that new?

Governor ORR. You mean, is the block grant program new?

Representative JACOBS. Do we have the block grant concept now?

Governor ORR. Well, I have attempted this morning to make the point that to a large degree we have categorical grants in block grant clothing. I think we are making a move in the direction of more of a sharing of the responsibility between the National Government and the State government.

Representative JACOBS. Well, let me direct your attention to the community development funds under HUD. That, I should say, has all the earmarks of a block grant. And as I understand, the Department of Housing and Urban Development has something to do with public housing, wherever it exists. You would think logically, for example, that block grants that now exist—community development grants for security at the Barton Towers here in Indianapolis, at the River Towers in Indianapolis—might be used for improving the housing lot generally, and maybe some other specific development for the community.

But you said, Governor, that one clear message from the last election is that people want government off their backs. Isn't it a fact that some very prominent Indianapolis people, some of whom are good friends of mine, wanted the Government to help them get a bad investment off their backs in this train station down here and use block grants to do it, the community development money? Does my memory serve me right about that?

Governor ORR. Well, you have made that point quite frequently, Congressman Jacobs. I don't think that's any new information.

Representative JACOBS. Well, let me then tell you what they say down in Oklahoma. They say, "If they want to find out what a cowboy will do when he gets drunk, they find out what he did the last time he got drunk." And that's my apprehension about block grants. I suspect it's true that a lot of people in this country do want government off their backs; they are the ones who are not on their own backs. And I believe it was Abe Martin—that's a good Indiana person to quote—who said that after you got everything you want, optimism don't count. So I expect that it's true that a lot of people who are fortunate in life, including myself and you, sir, would like to have government off our backs in terms of taxation.

But I think it's equally true that the people who are not so fortunate, who just simply aren't quite so lucky—and maybe you have worked hard and maybe I have worked hard, but we started out with an awful lot of luck, it seems to me, as to when we were born and the opportunities that we have had--I am not sure that they want government off their backs.

You describe this block grant program as different and therefore better. Does that strike you as containing some logical gap? Different and therefore better, is that necessarily true?

Governor ORR. Not necessarily, but I would like to think that the program that we are all beginning to enter into will be better. And I am of the belief that the closer decisions, wherever they may be, are made to the people, the more likely you are to hear the people respond either favorably or unfavorably. And I think that the people I am talking about that want to have government off their backs are the people of this country who work and earn a living. It is Mr. and Mrs. Average American, and these are the people that are speaking out at this point who are awakening to the fact that some of the programs that have been in place over the years, they are now paying for. And they are realizing that maybe there is some inequity.

Representative JACOBS. I don't know, it just somehow strikes me that the administration has said that there is going to be a certain amount of suffering in the country to bring the economy around; we'll all have to make sacrifices and do a certain amount of suffering. And it just seems to me that so far the very, very poor in this country suffer budget cuts and the very rich have suffered tax cuts.

Governor ORR. I think it is our job to make sure to the maximum degree that we can that administrative costs, overhead costs, are reduced, so that the people that you are talking about do get the delivery of services. And I think one of the problems that this Mr. Average American rebels at is the overblown bureaucracy that has been built up over a long span of time to deliver those services.

Representative JACOBS. Just so, but in your testimony, Governor, you said that there will be actual cuts in services.

Governor ORR. I did say that, yes, because of the fact that there are categorical strings still attached to these programs that will make it difficult for us to be able to reduce the overhead.

Representative JACOBS. Well, for whatever reason, the reduction in the budget at the other end means that some children won't have operation Head Start and preschool according to your testimony. Is that correct?

Governor ORR. I said if we are not able to modify the language put into the social service block grants, title XX programs specifically, and that language put in by Congress, let me add, that there is no ability for a transition to take place so that those programs may be reduced by that 36- or 37-percent level; and, under those circumstances, there may be some difficulty in delivering the moneys to those specific programs that you named.

Representative JACOBS. I have an idea that when the American people cast this overwhelming vote, which was not very overwhelming in terms of people but overwhelming in terms of the dynamics of the electoral college last year, that they were voting against Government spending, but it seems to me that they were mostly voting against Government officials living high on the hog themselves.

This isn't a cruel country. I don't think very many of them are voting to cut the necessary services to the very poor. I don't think they were voting to make our Nation ignorant in another generation by cutting away educational opportunities from people.

Do you know of any cuts that the White House has made in its own luxuries, or do you know of any increases that they have had?

Governor ORR. I am not knowledgeable of that. That's the Federal level; that's what Congress is there for. I am knowledgeable of my own circumstances, where we have been doing everything we can in the last 8 months, 7½ months, to hold every possible cost in line.

Representative JACOBS. But I am talking about the White House. You said you visited there, what, two or three times lately?

Governor ORR. No.

Representative JACOBS. You watch TV every night. Do you think they have cut the luxuries at the White House or increased them?

Governor ORR. I haven't the remotest idea.

Representative JACOBS. Not the remotest?

Governor ORR. I wasn't privileged to enter the White House during the previous 4 years, Representative Jacobs.

Representative JACOBS. Except through the medium of the television, I assume.

You were never in the White House in the previous 4 years?

Governor ORR. No, sir.

Representative JACOBS. OK, I just have one last question. How many times did you hear President Reagan say that if the Congress cut his military budget at all it would imperil our very existence on this planet?

Governor ORR. Well, I am not sure I heard him say exactly that, but I know he feels concerned about that particular point.

Representative JACOBS. You have heard him say approximately that——

Governor ORR [interposing]. Sure.

Representative JACOBS [continuing]. Time and time again. Now I understand he is proposing to cut his military budget by $30 billion. Should we head for the cellar, or do you think we'll still be fairly safe?

Governor ORR. I am most certainly not privileged to understand the requirements and needs of our military budget. This is something that at the very highest levels of our government, and indeed

within Congress, that that information is available to the point where there is an ability to be able to understand it. I can only act upon what those who have that responsibility say.

Representative JACOBS. All right, then my question than is, which time do you think the President was right? When he said it couldn't be cut a bit or when he said he is proposing to cut it by $30 billion?

Governor ORR. He may be giving recognition to the seriousness of the economy of this country which has been caused by the inability of Congress to deal with the economy over the last 25 years very effectively.

Representative JACOBS. Yes, I am sure he is.

But the question was, which time do you think he was right?

Governor ORR. He may have to sacrifice some of the things that he might like to see done in order to protect our country's economy.

Representative JACOBS. You mean, like our continued existence? Our continued existence, he would sacrifice that for the economy?

Governor ORR. Our continued existence is many things, many things.

Representative JACOBS. Well, I think he was talking about being blasted off from the face of the Earth.

Governor, my point is that I think there is something very strange about a philosophy that says billions for defense waste and not one cent for what we're supposed to be defending. Do you agree with that?

Governor ORR. Do you think it's strange? I don't think it's strange for somebody to have the opportunity to change his mind if he sees that there's a valid reason for doing so.

Representative JACOBS. Even if it means that we'll be wiped out? I have no further questions.

Representative HAMILTON. Governor, I just want to bring up one other thing with you on these funds. On the competition for the funds, how are you going to handle at the State level the large number of groups which will be pressing upon you now as Governor and upon your staff for funds? These groups previously pressed upon Washington and the Washington bureaucracy.

For example, in the health services area you have got people who have had an interest in home health care, you have got other people interested in crisis centers, you have got people interested in emergency medical services; and all of these funds have been allocated to the different groups through the categorical grant programs. That's all going to come on you now, and it's all going to come on your people. And you are operating, insofar as I know, with no legislative guidelines as to how these moneys are going to be allocated within the block grant programs in this preventative health and health services area, just by way of illustration. And you have indicated to us you are going to do that with a reduction in your staff.

It seems to me you are taking on very considerable extra obligations and duties, not the least of which is how you determine this allocation. And you are making that determination without the guidance of legislative authorization, at least in any detail. And you think you can do it with a reduction in staff.

Now, this competition for funds can get very intense, as I know you are aware. I am not sure that I have the confidence that you do that you

are going to be able to handle that, and I hope you are right. But you must see some real problems in all of that.

Governor ORR. Well, in the first place, Congressman Hamilton, your question implies that we haven't over the years had the opportunity to deal in an effective way in response to the same interest groups that Congress has. We have them in our halls as well.

Representative HAMILTON. Yes; I understand that, Governor. But in the past what you have done is you have operated within the Federal categorical grant program, so that so much money here is for rodent control, and so much here is for fluoridation, and so much here is for emergency medical services, and so much here is for high blood pressure control, and so much here is for the crisis centers.

Governor ORR. Well, those people have been making their points to the legislature and to the executive branch of Government.

Representative HAMILTON. But, you see, the problem now becomes much more difficult, it seems to me, from an administrative standpoint.

Governor ORR [interposing]. Sure.

Representative HAMILTON [continuing]. Because now your people are going to have to make the judgments, and you, as to how you allocate these funds for many, many worthy purposes. We all agree with that.

Governor ORR. Which is to imply that those decisions can be better made in Washington than they can in Indianapolis.

Representative HAMILTON. No, no. I think I don't perhaps make myself clear. I am not making that implication at all.

What I am saying is that your people in the past have not had to make the judgment as to how these moneys are allocated because that has been made for them through the categorical grant program. Now, I don't want to get into the merits of whether that should be done in Washington or in Indiana, but under the block grant approach it is now clear that judgment will be made in Indiana.

Governor ORR. Sure.

Representative HAMILTON. And it is going to require a great deal more administrative effort to make those judgments, because you have got all of these groups out here competing for money. They are going to come in to you and they are going to come in to your people and say, "Look, we want this money for this purpose; and we want it for that purpose; and we want it for that purpose." And you are saying to us that you can make those judgments with fewer people, in effect.

Governor ORR. Well, I don't want to emphasize the fewer people too greatly. It is obviously a requirement that we keep our eye on not letting our employed staff grow and we will do our best to reduce. But let me make the point that we have been engaged in this process with title XX now for several years. Many of the same kinds of groups have been making a plea to State government to deal with this matter; and I think that it has been a very, if you want to put it that way, a very good learning process for State governments generally, through title XX, to become better acquainted with specifically how to deal in those kinds of matters.

Representative HAMILTON. Well, I don't want to give you the impression or anyone the impression that I am opposed to the block grant approach. I am not.

I know there are plenty of problems with categorical grant programs, and I agree with the implication of your statement that we have far too many of them and that we cannot administer all of those programs from Washington. I agree with that observation too.

There is a concern, however, having said that, on the part of me and not just Members of Congress, but groups like the GAO and the Advisory Commission on Intergovernmental Relations and others, that as you move these block grants to the States and give them the responsibilities to make these tough judgments, that what you will really do is create 50 administrative bureaucracies instead of 1 and that there will be very great pressure upon the States, over a period of years—I wouldn't expect this to happen in the short term but over a period of years—to expand their administrative bureaucracy in order to handle the block grants.

Now, I don't have any doubt about your intention, and I don't have any doubt about the intention of other Governors to handle it with fewer people, if at all possible and certainly not with an expansion; and, I accept that. It's just that what we do today is going to be here for a good many years to come, and the natural pressures on a bureaucracy as they deal with these special problems will be to expand and to grow in order to handle the pressures that are upon them. That's my concern.

Governor ORR. This is a daily responsibility and function of being the chief executive officer, wherever that responsibility is.

Representative HAMILTON. And it's going to become tougher with these.

Governor ORR. Sure, it is. I understand that fully, but I do strongly believe that if it does become 50 individual situations instead of 1 in Washington that there will be—that breaks the numbers of people throughout the country down and they are going to be watching it pretty closely. I think, in many respects, this is the best way in the world to keep the cost down and have the public have ample opportunity to see it evolve.

Representative HAMILTON. We thank you very, very much for your testimony this morning, Governor. I think you have been exceedingly helpful to us in contributing to our understanding of the impact of this.

I want to see if we can help you with some of these problems on this title XX, and I think that was an excellent suggestion you made there. And thank you, very much.

Governor ORR. All right, thank you kindly.

Representative HAMILTON. Our next witnesses are two mayors. I see them present here. We welcome them to our subcommittee hearing this morning.

Mayor William Hudnut of Indianapolis, we will ask him to come forward if he will, and Mayor Richard Hatcher, who is of course the mayor of Gary. Mayor Hatcher and Mayor Hudnut, I wonder if you could both come forward. We want to welcome you to the subcommittee and say that we're delighted to have you with us this morning. I know you gentlemen will have a somewhat different perspective on the block grants than the Governor, and we look forward to your testimony.

I will ask Mayor Hudnut to begin with his comments, if he will, to be followed by Mayor Hatcher. Mayor Hudnut, we welcome you.

STATEMENT OF HON. WILLIAM HUDNUT, MAYOR, CITY OF INDIANAPOLIS, IND.

Mayor HUDNUT. Thank you very much, Mr. Chairman. It's a pleasure to appear with Mayor Hatcher before your distinguished group of colleagues.

I have a brief statement. I might as well read it and get it into the record, and then Mayor Hatcher will make his.

I appreciate the opportunity to be here with you today to discuss what represents a first step in what may prove to be a fundamental shift in our Federal system—the expansion of the block grant approach in intergovernmental relationships.

For many years, State and local officials have spent much time complaining about the growing centralization of power and control over public life within the Federal Government. We have pleaded for greater authority and responsibility, coupled with the financial resources to meet those obligations.

Now, of course, those wishes are becoming a reality in many respects. And, speaking both as the mayor of the 12th largest city in the United States, and as president of the National League of Cities, I want to say that I generally approve of the direction of things, and hope that the President will enjoy an even greater amount of success in his future consolidation and simplification efforts.

Needless to say, the Federal shift which is occurring presents both States and local governments with a new set of problems, responsibilities and opportunities. In increasing measure, the ball is in our court, and it is now up to the cities and States to deliver on what they have promised.

Historically, local and State government relationships in Indiana and elsewhere have been too often characterized by suspicion, mistrust, and animosity. Cities have long felt that they received the short end of the stick in their dealings with State capitols and that perception, in large measure, resulted in the cities going to Washington where they often felt they could get a better deal.

As we all know, that better deal turned out not to be all that it was cracked up to be, and the plea for more autonomy and flexibility spread.

Now, the pendulum has begun to swing back to a point where State and local governments will be dealing more and more with each other, and less with Washington. Still, the older fears of the cities, whether in Indiana or elsewhere, remain, and I think it important that all of us recognize that we are all in the same boat, and we need to paddle together whether we want to or not.

The National Governor's Association took a step in that direction recently when it announced the formation of a permanent committee on State-local relations. That followed an invitation to myself and others representing local concerns to appear on an NGA panel—the first time such a thing has happened in 73 years.

Here in Indiana, Governor Orr has appointed a series of task forces to hold public hearings around the State to get input at the planning stages of the block grant process. That is an important and applaudable point. Even so, I hope that the Governor's staff recognizes that local governments have a much greater interest, and more responsibil-

ity connected with, the administration of the block grant programs, and that the Governor will follow a suggestion made by the Indiana Association of Cities and Towns to appoint a panel of local government officials from around the State who can educate State officials on what block grants mean to them, among other things, and make concrete suggestions concerning how the State administers those moneys.

The fiscal impact of the block grant programs is rather difficult to measure in our State. For instance, the city of Indianapolis has little or nothing to do with block grant moneys for education, health or human services. At the same time, our city is an entitlement city for the community development block grant, so the new involvement of the State in that program is not of direct concern to us.

However, that is not to say that we do not have some concerns. Clearly, the overall funding cutbacks in social, health, and educational services have a direct effect on the quality of life in our community, and we are concerned about the ultimate form of the State distribution of funds in those areas. At the same time, speaking now as president of the NLC, we are deeply concerned about any State involvement in the CDBG program. As you know, the NLC had favored the continuation of a direct Federal-city relationship for cities of less than 50,000 in population.

Finally, I would like to say that it is important that all of us stop complaining or worrying about the Federal funding cutbacks and get on with the business of figuring out how we are going to continue to serve the needs and expectations of the general public. Every time we think we have achieved maximum efficiency, we find a new way to reduce costs and to get more mileage out of each dollar. We must continue to be more efficient.

We must also be willing to do our part to get Federal spending under control. Paying lip service to cutbacks in Federal expenditures, and then complaining about every cut that hits home is hypocritical and adds nothing of substance to the public debate. There is no better cure for that which ails us than a more vigorous economy, greater employment, higher productivity, reduced interest rates, and lower inflation.

I think that President Reagan is on the right track, and that over the long term his economic policies will be proven to have been right.

Thank you.

Representative HAMILTON. Thank you very much, Mayor Hudnut.

We will turn now to the testimony of Mayor Hatcher.

STATEMENT OF HON. RICHARD HATCHER, MAYOR, CITY OF GARY, IND.

Mayor HATCHER. Thank you, very much.

Mr. Chairman, Congressmen Jacobs and Evans: I would like to first of all express my appreciation to you, Mr. Chairman, for the opportunity to be here and just the fact that such a hearing is being held here in the State of Indiana. I cannot think of any State where the subject matter that is under consideration here this morning is more critical, more important, to the well-being of the people of that State than the State of Indiana.

And perhaps unlike my good friend Mayor Hudnut, I will not come to condemn. In fact, previous Federal support to my city has made it possible for people to live in better housing, to have employment that they otherwise would not have had, to receive health care that they otherwise could not have afforded. And while I realize that it is fashionable today to condemn all those nasty ol' things that the Federal Government has done for cities in the past, I don't intend to join that course. I am sure that will come as no surprise to some of you.

Mr. Chairman, I will, to the best of my ability, try to tell you what is in my heart. I have just come from a struggle—and that is literally what it was—with my city council over our budget for the next year. And that struggle took under consideration some of the policies that are currently being espoused and promulgated by the national administration and some of the legislation that has already been acted upon by the Congress.

What we were in effort doing—and I think we all realized that once the struggle was over—was to fight over the crumbs, over the lead-ins. We were in effect trying to carve out all parties and interests; in other words, all parties and interests were trying to carve out a piece, a larger piece of a pie that was much smaller than could ever be hoped to serve the needs of the people of our community. And so, finally, we had to accept the fact that we will not have the money to pay for the kind of police protection that we need for the people of our community next year; we will not have the money to provide many other basic services that the people of our community need next year.

And as I look at the block grant approach that is being, again, promulgated by the national administration, there are certain very real concerns that I have. In spite of the fact that I am the past president of the U.S. Conference of Mayors, I do not speak for the U.S. Conference of Mayors, but my general position is very consistent with the position that has been taken by the U.S. Conference of Mayors; and, that is, that we have some very basic concerns about the block grant approach working through the States.

Among those concerns, I suppose the top concern would be the very fact that there is going to be a 25-percent reduction right from the outset. And considering the fact that there are basic needs that call for an increase to begin with, a 25-percent cut is just going to be devastating in these programs.

Second, there are some problems, and I think the Governor has addressed them, in terms of the transition period for some of these block grants. There is a need, I think, to reconsider that, because very clearly, some people are going to suffer as a result of the short transition that is proposed for some of the block grants.

In addition to that, the State is going to have to assume—and I think some of the questions raised by the members of your subcommittee have addressed this already—but the State will have to assume increased administrative responsibilities, and I am really hard put to know where the resources for those additional administrative requirements are going to come from. We hear nothing from the States, other than the fact that they already are hard put to hold onto all of the personnel that they have now and that they are contemplating

cuts in their personnel. And so, I would be very concerned that they aren't going to be able to take on additional administrative burdens.

Second, even if they could afford them, the question is whether it would be a good thing to establish additional State bureaucracy. We have some examples to inform us in this regard. One good one, I think, is the LEAA program where we saw the establishment of bureaucracy to administer that program at the State level, an additional bureaucracy to administer that program at the regional level, and another bureaucracy to administer it at the local level. Very frankly, Mr. Chairman, by the time the funds that were proposed for fighting crime actually reached the streets of the cities of this State, there was precious little left to fight that crime because much of it had been drained off by this additional bureaucracy that was established to administer the program. And I suspect you are going to see a repetition of that with regards to many of these block grants.

Another concern that I have is that this may be only the opening shot; that is, the 25 percent reduction. And if you add in, of course, inflation, you are talking about 37 percent. At a U.S. Conference of Mayors meeting not very long ago, the question was put to Rich Williamson who, of course, serves on the staff of the White House, as to what the long-term plans were in terms of the block grant program going to State governments and whether or not the rumors that seemed to be flowing freely were true, that the ultimate plan was to eliminate the block grants altogether and to require the State and local governments to develop the resources.

He did not answer the question. I thought he was wise not to do so. But, it was clear that there is some thinking that ultimately we will see a total elimination of these resources coming from the Federal Government to the local level. And I don't think that it is sufficient to say that the State government will be given taxing authority, because of the difficulty as you well know, especially at the State and local level, of establishing new taxes. I just think that is going to be a very serious problem.

I think our concern also has to do with the historical relationship between State and local governments. And my colleague Mayor Bill Hudnut has touched upon this, but anyone who describes that as a wholesome, useful, good relationship could not possibly live in the State of Indiana. I just think that it is clear that historically there have been great problems in terms of establishing a good working partnership and relationship between the State government and the local government.

At our end of the State, that is, the northern part of the State, the problem is exacerbated, I think, by distance. And we find ourselves generally the recipient of State mandates without any State resources to carry out those mandates.

We have great difficulty, very frankly, in persuading the Indiana State Legislature that, for example, Gary and Lake County are actually part of the State of Indiana. As a general proposition, they are treated as some foreign country that should be avoided at all costs. I suspect, with increased authority being placed at the State level, we are going to simply see an increase in that attitude.

Local officials have worked very hard, Mr. Chairman, over the last 10 years especially, to establish a close relationship with the Federal

Government. We have done so out of need, because many of the problems that exist in our communities were not being addressed at the State level. And we cherish that relationship and feel that it is a relationship that has produced very good results for the people of our cities. We are uncertain that to end that relationship and to do so, so abruptly, will be in the best interest either of the State government or the local communities or the Federal Government.

Finally—I don't want to go on, because you may have some questions—but finally, I do want to make some suggestions because I think we do have to face the reality that the block grant approach is here. Whether it's here to stay, I suppose remains to be seen; but, it is certainly here. And so, I think we have to expect to live with that reality at least for a while.

And if that in fact is the case, then first of all I am very pleased that the Governor is attempting to get input around the State by establishing these task forces. The problem that I have with that, very frankly, is that we have not had an opportunity, have not had a real opportunity to participate in those task forces.

I would support the proposal that Bill just made, coming from the Association of Cities and Towns, that local governmental officials be made a part of the process of gaining the input. I think we are in an excellent position to know what the effect and the impact of these block grants will be on our own communities, and I would hope that we would have an opportunity to be an active participant in any process that will determine how the moneys will be distributed.

The other suggestion that I would make to you this morning is that at least three cities in this country have gone through an experience, an experience called a negotiating investment strategy. I think that that is applicable here only because that process requires local government and State government to sit down across the table from each other and to actually negotiate with each other what exchanges they will make and what trade-off they will make with each other. It means, for example, as it did for us in Gary, that if we wanted a bond issue passed or approved by the State of Indiana, that we had to agree to certain things before submitting that bond issue. By the same token, if we agreed to those things, it means the State made a commitment to us that it would not oppose the approval of that bond issue. In that process, the Federal Government also sat on one side and the private sector was there.

It may not be possible within the context of the State itself to include Federal Government and the private sector, but at the very least there ought to be a process in determining how these block grants are going to be distributed which actually requires the State government to sit down across the table from representatives of local government to work things out. There were many misunderstandings that were of longstanding that were resolved, simply because we were required to sit there as long as it took to resolve our differences. I think that out of the process came a better understanding on the part of the State government of the kinds of problems that mayors and city councils and local governments are confronted with on a day-to-day basis; and it also created a far greater understanding on our part, I think, of the problems that the Governor and the State legislature and other elements of State government have in dealing

with local problems. So I would certainly hope that if we are going to proceed—and as I said, it appears that we are—with this block grant approach, that some process very similar to that, to the negotiating investment strategy, be developed.

One of the reasons block grants were developed in the first place was to create a degree of certainty in terms of long-term planning by local governments and State governments; in other words, if you have some rough idea of how much money you were going to get over a period of a year or 2 years, then you could make plans that were consistent with that. I believe that, again, this negotiating investment strategy would bring even greater certainty in the short term and long term and make it possible to plan more intelligently the expenditure of admittedly reduced revenues and resources. And in that sense, it would be a very useful device in terms of long-term planning.

The final point that I would make is that despite the historical differences—and there really are some serious problems—very frankly, for some of us this block grant approach through the State harkens back to the old State's rights days; and we have a grave fear that minorities and, poor people are going to suffer again as they suffered before from sometimes benign neglect and sometimes active hostility when the decisionmaking power lies at the State level. I hope that will not be the case.

I certainly hope it will not be the case here in the State of Indiana, but that fear is there, Mr. Chairman. And therefore, I would still hope that in the provision of these block grants to the States there would be some specific requirements that would protect affirmative action, that would protect equality of opportunity, and that would make it impossible to use these funds in a manner that is discriminatory to minorities here in the State of Indiana or anywhere else. I would hope that we would not be left completely stripped bare of those kinds of protections that have developed over the last 15 or 20 years or longer in this country and that have come to be accepted by people as just and fair to all people. I would hope that there would be some retention of those protections and that there would be, very frankly, in some areas, the earmarking of some of these funds for basic social services and a requirement that they be used for those basic social services.

I realize that that is on the path back to categorical programs, and yet I would suggest to you that the failure to build in some safeguards, some protections—and I would say that even if the cities were given all of the authority to make these decisions—it is necessary to have those national standards of equality, of justice, of fairness applied to all of these programs no matter who is making the decision as to how they are going to be administered. And I think the failure to do that, very frankly, Mr. Chairman, would create the kind of disruption in local communities, the kind of disorder, the kind of violence, as it were, in local communities, that none of us want to see ever happen again.

Thank you.

Representative HAMILTON. Thank you very much, Mayor Hatcher. I certainly should note that the congressional delegation is proud of the fact that you two gentlemen have not only been mayors in your cities, and effective mayors, but that you have led national organiza-

tions as well. Mayor Hudnut, of course, is the president of the National League of Cities. And, Mayor Hatcher, I think you are past president, are you not, of the U.S. Conference of Mayors? And the people of Indiana take note of that and take pride in it. We are very pleased to have both of you here.

Have either one of you been consulted by the Governor on the block grant allocations at this point?

Mayor HATCHER. I have not, Mr. Chairman.

The Governor, however, did call a meeting and representatives from my city were invited to attend that meeting. And we did send a representative to the meeting to discuss block grants.

Representative HAMILTON. Mayor Hudnut.

Mayor HUDNUT. With the exception of conversations that have been held in Washington, we have been at the same meetings at the White House already referenced. The answer is, to the best of my knowledge, no.

Representative HAMILTON. Would the involvement of the State legislature in this problem of allocation and setting up the manner in which it would be done, would that be helpful to you, do you think, or not? And when I say you, I mean the interest of the city. So would you like to see more involvement in the State legislature? I guess that's the question.

Mayor HUDNUT. Well, it depends on what kind of involvement, if I may respond first.

Representative HAMILTON. Sure.

Mayor HUDNUT. Mr. Chairman, I think both of us have said and I think we just have to get it up on the table and deal with it: There is a perception, not just in this State but around the country, that State legislatures are to a large degree insensitive to the problems of the cities and the plight of the urban disadvantaged. And if the involvement of the State legislature or legislators was constructive, I'd be all for it. I find it difficult, sometimes, to understand how people can come to Indianapolis and mandate on the cities, for example, a pension program for police and firefighters and then not provide us with the funding for it and not seem to care about it.

I find, as the mayor of Indianapolis, that it's a little difficult to understand the fairness in the fact that Indianapolis, which has 15 percent of the State's population, sends 21 percent of the State's gasoline tax money to the State coffers and gets about 9 percent back, and that's because of the way the formulas are skewed that are enacted by the State legislature. If there is a sensitivity there, if there is a willingness to be open about our differences and somehow to try to resolve them, then I think it would be helpful.

Representative HAMILTON. Mayor Hatcher.

Mayor HATCHER. Very quickly, I would go just one step further and I would certainly agree with everything that Mayor Hudnut said. But I would go one step further.

The way the legislature functions, of course, is basically designed to find the broadest common ground—that is, where compromise and consensus can be reached—in order to get the number of votes necessary to pass anything. That is a very real problem when it comes to dealing specifically, for example, with the question of the allocation of these funds, addressing very specific problems that exist in cities.

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There are some problems, Mr. Chairman, that it's very difficult to compromise on. You either are going to address that problem and do something about it or you're not. And I would feel some great concern, in addition to those things pointed out by Mayor Hudnut, that just the very way the legislature functions—and I am not criticizing that, because that's the reality, I guess, of most legislative bodies—but that it could not really be responsive to many of these problems. I am afraid, because of its size, to get it involved in this process I think would not be useful, terribly helpful.

I think there is a point, as you deal with your local council, there is a point where you must go to that body and submit something for them to either ratify or to reject. And I think the legislature could play some role in that respect. But in the actual process of formulating, and developing the process, I really think that it would not be especially useful.

Representative HAMILTON. You gentlemen don't exactly give an overwhelming endorsement of the State legislature in response to your problems.

Mayor HUDNUT. But, Mr. Chairman, if I may interject, bear in mind what I tried to say at the outset.

Representative HAMILTON. I understand.

Mayor HUDNUT. And that is, that I think we're seeing the dawn of a new day and I think it has been one of the beneficial side effects of the Reagan initiatives in stimulating the dialog on new federalism, that all of a sudden now we do have some task forces being formed and some committees and perhaps the dialog and the communication is beginning to occur more constructively.

Representative HAMILTON. Now, let me ask this, I don't know how much of a chance you have had to analyze these block grant programs that have been put before us, but can you give us any estimate of how specifically the block grant program is going to impact on the Indianapolis program and the Gary program at this point? Do you have any figures in mind, or have you been able to break that out yet?

Mayor HATCHER. Mr. Chairman, I cannot give you specific figures. I, at this point, am not clear in terms of what formula is going to be used. We know that the overall amount is going to be less, whatever that is. I don't know what kind of formula is going to be used to distribute those funds; and in that situation, I don't know how Gary will fare in terms of whether we will do well or whether we will not do well. If the past is any example, then we will most likely not do well in terms of that formula.

I really think that the impact is going to be very real, however; and, it is going to be a negative impact. I heard the Governor say that there is no plan among any of the Governors to make up for any shortfall in funds as a result of the block grant approach and reductions. There is no plan to attempt to make up for any of that at the State level.

It's very difficult for me to understand how the Governor can feel that that is going to be the case. What is going to happen to the people who desperately need those funds? Are we just going to say that that's just tough? Obviously, we're under a freeze at the local level; so, at the local level we aren't going to be able to produce any additional funds. And if no compensating funds are going to be forthcoming at the State level, then I just ask the question: What is it we are going to

pay in a much larger way, I think, for not finding some way to make up for that loss?

And it is perhaps the most discouraging thing I have heard here this morning, to hear it, and that that is the sentiment that is not only felt by our own Governor but that is shared by most of the Governors in the country. If that is in fact the case, then I think we're in even more serious trouble than I thought.

Representative HAMILTON. Mayor Hudnut.

Mayor HUDNUT. Mr. Chairman, in answer to your question, I would make a general point and two specific points.

My general point has to do with what I consider to be the national picture, the national impact. And I think that sometimes rhetoric verges on irresponsibility when it says that one is condemning all the Federal help that has come through to urban America simply when one supports the Reagan program which is not intended, really, to cut back on the amount of money to zero that is going to the urban poor. It is intended to slow down the rate of increase in Government spending.

If you took the figures for the next 3 years for the block grant programs and projected them out, the spending would come to about $100 billion nationally. The Reagan administration says they want to trim that back to about $88 billion. Overall, in terms of the next 3 years, they want to trim about $271 billion off of the rate of growth in spending. And if you add up the projected growth, it is unsustainable. That is their feeling and I support them in it.

Two hundred and seventy-one billion dollars would be 11 percent of what the next three budgets, if not constrained, would cost the American taxpayers for everything, $2.3 trillion or something like that. And what we're talking about is slowing the rate of growth in the increase. We're not talking, really, about an absolute cutback to zero for a lot of these programs; and, I think that's a point that sometimes is missed.

Insofar as the specific case of Indianapolis is concerned when all of this conversatioin started back in March or April, I asked our city controller, "What would it cost the city of Indianapolis, in terms of the direct revenues that we receive from the Federal Government, if all the cuts that are now being talked about were enacted by the Congress?" And parenthetically I might say, I am glad that they haven't all been enacted by the Congress. But if they all were, it would come out to about 10 percent of the total Federal dollars that are received. If the subcommittee wants it, I can make available to them the spread sheet that was made available to me at that time.

We took the amount of direct moneys that were coming in, such as the community development block grant program, the CETA program and so forth, as well as moneys that were coming in not for operation but for construction purposes. And according to our best estimates, if you added all of that up for the fiscal year 1980, it came to around $140 million. If you add up all the cuts that the Reagan administration was proposing, its impact on Indianapolis would have been about $14 million. That means about 10 percent.

I know that the figure 25 percent is being used nationally, but this is what we figured directly here, locally. Now, I think those are cuts that we could live with. Surely we'd be paying somewhere, but I

think that the short-term pain involved will be worth it if the long-term gain of a revitalized national economy and restored productivity can be achieved.

The other specific comment I would make is that I have not been able to get a handle on the impact on Indianapolis of what the cuts would be for the programs that are not administered directly by city hall, such as medicaid and medicare, or welfare, aid to dependent children and so forth, all of which come through the State, to say nothing of education. That is a figure that I think is almost impossible to come up with.

Representative HAMILTON. Mayor, I want to point out that with regard to cutting back the growth of Federal spending and the observations you made with regard to that, that insofar as the specific programs we are talking about here, the special services program, the health programs, you are actually having in these block grants an actual cutback of about 25 percent in the health care programs, somewhat less than that in some of the others. The figures you gave, I think, are probably correct with regard to the overall Federal budget picture. But with regard to the block grant program, I think you are going to be sustaining actual cutbacks from the 1981 authorization levels, the 1981 appropriations.

Mayor HUDNUT. For social services.

That does not include something like the community development block grant, though, does it?

Representative HAMILTON. It includes the health and health services. It includes the alcohol, drug abuse and mental health. It includes the primary care. It includes the low-income energy assistance, and it includes the community development.

The fiscal year 1981 level is $4.4 billion, roughly, and that goes down to about $4.1, so that there is an actual cutback in the community development as well in this area.

Mayor HUDNUT. Yes, sir.

Mayor HATCHER. Mr. Chairman, if I just might very briefly say that, first of all, you are absolutely correct that there is a specific cut proposed for those block grant programs that will go to the State and that does total about 25 percent, without taking into consideration the matter of inflation.

But I think that the point must be made—and I realize we are not here to argue philosophy—the point must be made that to suggest that these policies are designed to actually cut back on Federal spending is to mislead the people of this country. Basically what these policies are doing is shifting large amounts of money away from the social services sector and shifting them to the defense sector, and therefore to the corporate sector of the private economy. In fact, we will not see or have not seen at least up to this point any significant confidence being expressed in the ability of these policies to bring about the kind of change, in terms of the economy, that the mayor is suggesting is going to take place.

Wall Street, for example, which I assume would be leading the cheers if in fact they thought these policies were going to in fact work, every day seems to vote against these policies in terms of the stock market.

I am not certain that they won't work, and so I would not sit here and say that they are not going to work, flatly. But there certainly is nothing in terms of our past, there is nothing in terms of logic and there is nothing that is currently showing that suggests that these policies are going to be successful.

In the meantime—and I think this is the important point that has to be made—in the meantime, while we are waiting to see whether they are going to work, local governments and the people who depend upon local governments are suffering. That is my concern, that these policies are being put in place with no real concern for what happens to people in the short term, while we are waiting to see whether they in fact are going to be effective.

Representative HAMILTON. Congressman Evans.

Representative EVANS. Thank you, both Mayors Hudnut and Hatcher, for your comments.

Given the changes in Federal taxing policy, the problems that we have with our economy and the comments that you have just made, the budget cuts that we are talking about and the shift toward the block grants, at what point in time, Mayor Hatcher, do you think that we will reach that crisis point in urban areas in this country, a point of crisis whether it be in terms of social upheaval, a breaking point in terms of the economic problems that we have particularly in urban areas in this country?

Mayor HATCHER. Well, Congressman, I think that if you are sitting around waiting for a full-blown riot to occur, then I obviously cannot nor would I attempt to predict that kind of an occurrence happening. I think, though, we're already at a crisis point.

If one just takes a look in the last 18 months at the crime figures, at what is happening especially in terms of property crime, the kind of crime that involves people attempting to take other people's property away from them, you are beginning to see what is fast becoming an almost dramatic increase in that kind of crime. Now, I don't think that is exclusively the result of the fact that so many people are being laid off work. We just, as of the first of September, were required to lay off about 400 CETA workers, and there's no other jobs for them. And I know that some of those people, hopefully not many of them, but some of them are going to find a way to provide even if that means engaging in antisocial behavior. I think that we are already beginning to see a crisis—not with whole cities—going into deficit situations, although that is happening too. But, we are seeing this happen to certain agencies within cities.

School boards are having great problems just finding the dollars that they need to continue to operate the schools at a reasonably high level. So you are beginning to see that kind of thing. Mass transit systems all over the country are in very serious trouble.

And I see these kinds of things accelerating as the full weight and impact of the cutbacks that have already taken place begin to be felt, and the other policies that are taking place.

I am going to make one point in terms of minorities. I think they are being hit especially hard by these policies and by these cutbacks. Basically what has happened historically, because of historical dis-

crimination, minorities have not been able to move into the private sector at least in numbers equal, you know, in fair numbers. They have not been able to do that because of discrimination. So historically they have depended upon the public sector very heavily.

You will find minorities working in post offices and other Government agencies in disproportionate numbers to their numbers in the population. And sometimes, their qualifications far exceed what that job requires, but it's only because that's the only job they could get.

What we are seeing here now is a drastic cutback in the public sector, and so it means that those persons can no longer look to the public sector to provide them with the resources that they need to survive upon. When this question is raised, the President's response is that the private sector is going to pick up the slack and that they, because of the policies being pursued, will be in a better position to make up the difference. But at the same time, if that is the case, it's hard to understand the rationale behind what is presented as an effort to end regulation but what is in fact a stripping away of those guarantees that would require the private sector to treat all people fairly and equally in their hiring practices.

So on the one hand, you have the public sector which traditionally has been the place where most of these minorities have been able to survive in and you have that door being closed. And on the other hand, you have the taking away of what few guarantees and protections existed to make it possible for those same minorities to participate fairly and equally in the private sector. I think that's dynamite. I think that the potential explosion from the combination of those two policies is dynamite and is going to be far more costly to this country, in the long run, than it would have been to, yes, eliminate programs that are wasteful and that are not working. Eliminate them, but don't just throw the baby out of the bath water. That would be my concern.

Representative EVANS. But even if the President's policies prove to be successful, his economic policies, we're still looking at a period where there's a gap of several years, at minimum, where those individuals who will not any longer be employed in the public sector are left in effect in a no man's land before the jobs are there in the private sector.

Mayor HATCHER. That is correct, Mr. Congressman, and that's by the administration's own admission. They have said don't look for any real results from these programs for at least another year or so.

Representative EVANS. Thank you, Mr. Chairman. And because of other commitments, I am going to have to leave the panel at this time. I have appreciated the opportunity to be a part of it.

Representative HAMILTON. Thank you very much. We are very pleased to have had Congressman Evans with us.

Congressman Jacobs.

Representative JACOBS. We have for fiscal year 1982 a national budget of roughly $700 billion, I believe, and the projected deficit is about $42 billion at the present. My pocket calculator tells me that the budget for 1982 is out of balance by about 6 percent. And yet I heard it said that except for the military, there are across-the-board cuts in domestic spending. That doesn't happen to be true.

For example, I merely suggest the tobacco subsidies of a few months ago. I believe Director Stockman was somewhat nobler than the admin-

istration generally. He wished to cut those subsidies. It wasn't hard to determine who was actually at the helm, shall we say, of the administration, when those subsidies were not cut.

But there's quite a list that the record ought to see. The Clinch River breeder reactor, demonstrably inefficient Government spending, was restored recently by the administration; the so-called pork-barrel spending for dams to the west of us in some cases, for example, the O'Neill unit in Nebraska, to stimulate the production of corn for which we are now paying income tax because of overproduction and surplus. At the same time, disproportionate cuts, not 6 percent cuts, were being taken in Federal drug and law enforcement budgets.

Now, just think what would happen if the Congress and the administration decided we were going to balance the budget in 1982 by making a 6-percent cut across the board. Now that would include the military also. And anybody who thinks there isn't any waste in the military has never been in the military. It's probably the most gargantuan waste in our country, but it is a holy cow—let's face up to it. And the purpose of the military ought to be a holy cow; the purpose of education ought to be a holy cow. All noble purposes should be holy cows.

But I just wondered if the mayors would comment upon that? Do we really need to save God in El Salvador at the sacrifice of his children in the United States and that kind of thing? Could we just have a couple of comments about an across-the-board cut?

Mayor HUDNUT. I think that might be a good idea. I am not here to debate foreign policy, but the mayors do have concerns. This was very visible and audible down in Louisville when Mayor Dick Hatcher retired as the president of the U.S. Conference of Mayors, about the relative imbalance where there are cuts in human services and increases in defense spending. We have talked about that a little bit this morning, and you have quizzed Governor Orr on that. It's a very difficult problem, but I think that what you are suggesting has a great deal of merit. There are many inequities, and it would seem fair if everybody was cut even though there are some rather responsible concerns about the State of the military vis-a-vis the Soviet Union, which I have no expertise to get into.

If you are interested in helping to save Indiana taxpayers some money, you might take a look at the coal severance tax, because the cost that we pay for coal that comes into us from the West, for example, is much higher because of the severance tax. And I wish that the National Government would do something about that all across the country. And since you are on the House Ways and Means Committee, you are in a strategic position to do it.

There are four sacred cows, if I may amend Congressman Jacobs' wording a little bit.

Representative JACOBS. Probably 40.

Mayor HUDNUT. Holy smokes and sacred cows—that the mayors are very concerned about and don't want the Congress to cut. And we have told the President, the Vice President, and Director Stockman this. Now bear in mind what I say, that we are not speaking about human services so much because these come through the State. We are talking about the direct pipeline between the cities and Washington. What

happens with Operation Head Start and medicare and medicaid and AFDC and so forth is not included in what I say.

But of the 493 programs that directly impact the cities that the Federal Government has, the four that we think are the most important—and I am glad we are not putting it to a vote this morning, because you would divide out 1 to 1 on the first one, which is general revenue sharing; the second one is the community development block grant program; and, the third one is the UDAG program, the urban development action grant program; and fourth is the EDA program.

All of these have to do I think basically not with the delivery of human services as much as with the revitalization of the cities. Mass transit also is something that we're deeply concerned about. Mass transit is in trouble all across the country and beyond that, of course, the human services.

But as I say, at least here in Indiana, those don't come through directly to us. But I would appeal to you to consider those four sacred cows as worth saving.

Representative JACOBS. Let me just comment, if I can, for a second. You are quite right about the revenue sharing, Mayor, and we have got a difference of opinion about whether it's a downtown tax arena or the Market Square Arena in terms of revenue sharing.

As you may recall a few years ago when Father Drinan ran for reelection up in Boston, he put out a brochure that said—I don't know if you have ever seen Father Drinan, but it said: "Do you want a representative who is intelligent, hard working and suave?" And you open it up, and there was a picture of Father Drinan. And the statement was, "Two out of three ain't bad." So I hope you think that three out of four aren't that bad.

Mayor HATCHER. I would just say that one man's sacred cow is another man's bull.

I think CETA has been treated very unfairly in terms of what it has been able to achieve and to accomplish. And I know that as a mayor that the one constant and ongoing demand that I experience is jobs—people want to work. And the notion that everyone wants to be on welfare is just an incorrect and inaccurate notion. The people that I come in contact with want to work. Their problem is they don't have a job.

CETA, to some degree, provided a job. I think it's a fair criticism of CETA to say that sometimes those jobs were going nowhere; they were dead-end jobs. But at least during the 18 months, the year or so that they had the job, they were working, bringing home money, and taking care of their families. I would certainly hope, now that there has been a very substantial cutback in terms of the CETA program, that something be put in its place, something that is going to provide employment for those persons whom the private sector clearly is unable to employ, either because they lack the skills or because there's simply no job for them to be given.

Representative JACOBS. I thank you both.

Frankly, Mayor, you say it's the dawn of a new day. I must say it appears it might be a rather rainy day.

I am sure it's the intent of the President and the national administration to reduce administrative costs by the block grant approach; but I hope I am wrong—I sincerely hope I am wrong—but I think the effect,

regardless of the intention of block grants, may be just that, to block grants that are now getting through to the people.

Mayor HUDNUT. Well, I think you are wrong, Congressman Jacobs. And I have been wrong and you have been wrong; I have been right and you have been right. There's a bit of a riverboat gamble about this, as Senator Howard Baker pointed out. I think that the feeling is that what had been going on ever since the New Deal wasn't working, and that it came to a culmination between 1976 and 1980. So, something else ought to be tried. Whether or not it works remains to be seen.

I know you Congressmen—because I used to be there—loved the categorical grant approach.

Representative JACOBS. When was that observation?

Mayor HUDNUT. You love the categorical grant approach, because you can announce the grants and take credit for them and all the rest of it. And block grants, which are based more on an entitlement, don't appeal to the Congressmen as much as some of the other grants.

But from the point of view of administrative simplification and consolidation, it seems to me that it makes sense to try to reduce the plethora of categorical grants that are available to simplify the administrative costs. I share your concern about whether or not a lot of this money will be siphoned off at the State level and not flow through to the people; and this is one reason why the National League of Cities feels very strongly that the small cities, under 50,000 in population, all over the country, ought to maintain a continuing direct relationship with HUD and not have to go through the States, which is what the States and the Federal administration want. We feel as though it's important to make sure that what you fear doesn't happen. We share some of those concerns.

Representative JACOBS. All I can say to that, Mayor, is that we're in a society where we believe in rule by law and not by person. And block grants—and I must say in candor, revenue sharing, too—tend very much, since the revenue is raised on one level and the decisions to spend it are on another, and even if the decisions to spend it on the other level were to spend it on that level but not a level farther down, it is very poor statecraft in my judgment. And I would vote for revenue sharing a thousand years before I would vote for block grants, for that reason.

Mayor HUDNUT. Well, I'm glad to hear there's some possibility you may vote for revenue sharing.

Representative JACOBS. In your business, you do believe in redemption.

Mayor HUDNUT. I might point out that revenue sharing, the administration of it, takes less than 1 percent of the total money. I am sorry that Congress cut out revenue sharing to the States. Back in the middle 1970's, we received from State revenue sharing $5 million, which helped a lot in the city of Indianapolis. We don't receive anything now.

And what you have just said, I think, takes us right to the heart of the problem with new federalism. You talk about taxing at one level of government and spending at another, and there can be a lot of irresponsibility involved with that. But if you cut the funding at the Federal level and you live in a property tax control program State, for example, where there's a freeze, you have serious problems—as Mayor Hatcher was mentioning—if you cannot generate revenues locally.

And the irony here is that as a result of what's happening in Washington, the States and local governments are being pressed to raise their own revenue sources; and, I am not sure that that's a problem, a political problem, that the administration in Washington has focused on yet.

Representative HAMILTON. Mayor, I just want to say that insofar as this Congressman is concerned, I don't make or approach the choice between categorical grant programs and block grants or revenue sharing, for that matter, with any preconceived ideas as to which is better. The question we have to focus on, it seems to me, is not some kind of a philosophical preference for block grants as opposed to categorical grants, but which program more effectively delivers the service. And frankly, the evidence on that point is mixed. Some block grants work well; some don't. And it isn't a panacea to go to block grants, nor is it a panacea certainly to go to the categorical grants.

The question you have to focus on is, "Are you delivering effectively the services you are seeking to deliver?" And I don't think there is a general rule that one or the other is better, it seems to me. That's my approach, at least, to this whole question of block grants.

Yes, Mayor Hatcher.

Mayor HATCHER. I just want to say, Mr. Chairman, that I think that you have really put your finger on it. To treat either of the two as being sacred I think is a serious mistake, and I think we ought to look at it that way. We admittedly are going through a period of reduced resources. I don't think there's any question about that. So, that's going to be hard enough to adjust to as it is.

I think to create the kind of change that is being attempted here, where State government is going to be asked to do something that it has not done before, has no real experience in doing, I think is going to compound that problem. By the same token, to take away some of the authority and the discretionary ability of local government which has built up over the last 20 years is not going to be beneficial. Many cities are just reaching the point where they actually understand and know how to administer these programs.

The former Secretary of HUD made a statement when he was still the mayor of New Orleans that I think was appropriate then and it is appropriate now, to some degree, hopefully less, but he said, when talking about the then fairly new manpower or CETA program—someone said, "What do you want the new administration to do for you?"

And he said, "Well, perhaps the first thing that it could do is to declare a general amnesty for all mayors in the country who have had a manpower program, because no one understood the program, including the Department of Labor, I might add."

And now we have reached the point in some of these areas, in cities, where we understand the programs. We understand how to apply them. We have some skill and some expertise in making those programs work. And it appears that now that we have reached that point, all of a sudden we are going to change all the rules and tell the State to now get some on-the-job training in learning how to actually run some of those programs. I think that's a terrible waste, and it is going to make this period of diminishing resources that we are moving into even more difficult to adjust to.

Representative HAMILTON. Gentlemen, I was supposed to have you off the witness stand at 10 a.m. And you were so good and so effective and persuasive that I kept you on. Thank you, very much, for your excellent testimony. We were very glad to have both of you.

Mayor HUDNUT. Thank you.

Mayor HATCHER. Thank you, Mr. Chairman.

Representative HAMILTON. Thank you.

The next two witnesses are Susan Kennell and Stan Jones. If they are here, we would appreciate them coming forward to the witness stand, please.

[A short recess was taken.]

Representative HAMILTON. Ms. Kennell, we are delighted to have you with us too. Now my understanding is that you are the director of the Indiana State Planning Services Agency and you are the Governor's primary point person on the block grant program. Is that correct?

STATEMENT OF SUSAN KENNELL, DIRECTOR, INDIANA STATE PLANNING SERVICES AGENCY, INDIANAPOLIS, IND.

Ms. KENNELL. Right.

Representative HAMILTON. Do you have any prepared statement for the subcommittee?

Ms. KENNELL. No.

We just have a few brief comments as per your staff's request, and then I brought with me people representing State agencies involved with the block grant program. Why don't I introduce them first?

Representative HAMILTON. Would you do that, please.

Ms. KENNELL. Don Blinzinger with the Indiana Office of Social Service which administers the title XX program.

Mr. William Miller from the Indiana Department of Public Instruction.

Mr. Al Gage from the Indiana Community Services Administration.

Mr. Robert Yoho from the Indiana State Board of Health.

Mr. Ray Rizzo who is Chairman of the Indiana Health Task Force that we are establishing.

And Mr. John Jones from the Indiana Department of Mental Health.

Representative HAMILTON. Mr. John Jones?

Ms. KENNELL. Right.

Representative HAMILTON. We are very pleased that you have these persons with you, and we thank them for coming. I will let you make any statement you would like, to open it up.

Ms. KENNELL. I just have a few brief comments. The Governor has already explained Indiana's position on the administration of block grants. I wanted to briefly describe to you the State's mechanism for dealing with the administration of the block grants.

The Indiana State Planning Services Agency, in very close connection with the State budget agency, has been designated as the block grant coordinating agency for the State. The Governor has established a policy committee, which includes legislative leadership along with his executive and administrative assistants, the Lieutenant Governor, the superintendent of public instruction, the director of the Washington office, and the budget agency, to deal with day-to-day decisions

that must be made before the general assembly has an opportunity to come back into session.

Additionally, the Governor has formed four task forces with a dual purpose of educating the public on the block grant programs, and seeking input from the public on what kinds of programs we need. The task forces will be holding hearings throughout the State; and each task force, with the exception of the Indiana Education Task Force—which was established under guidelines for membership, in the Budget Reconciliation Act—they will have basically 10 to 11 members. In three of those, three or four of those members will be representatives of the public at large.

We felt that because of the brief time we had to go ahead and implement the program, it would be a better course to seek input as much as possible from the public, from local governmental officials, from provider groups and from recipient groups that might be involved. And rather than include those people on the task forces, because that would have had to be so large to get all groups included, that it would be better to get objective people on the task forces to seek the input then from that much broader group of persons who would be interested.

So there will be three or four members of the public at large, and one of those persons will be the chairman. There are three Indiana legislators on each of the four task forces. There is a representative of county government, a representative of city government, and a representative of town government; and finally, there is a State agency representative. The task forces are bipartisan in their construction also.

They are in areas of education, community development, health—and the health task force will consider the four health block grants—and then in human resources. The Indiana State Human Resources Task Force will consider the social services, the energy, and the community services administration block grants.

In the months of September and October, each task force will be holding between four and five hearings at different localities throughout the State. They will then be presenting their findings and observations to the Governor and the policy committee and to the Indiana General Assembly for action at that time.

Additionally, we have sought State agency input already on what types of programing exist at the present time, what types of impact budget cuts will have, what types of matching requirements might be involved, and this sort of thing.

We are, I think the Governor mentioned, generally pleased with the idea of block grants and with the States having additional flexibility. It is in areas where there are maintenance-of-effort provisions or any other restrictions on the State's ability to design programing or to design the delivery system, where your program can fit the needs of the people, that we might have some problems with going ahead with implementation; or, it might take some time, which will require us to use a transition period wherever possible.

Briefly, that is an outline of the structure. The structure was established even before—the basic structure of the Budget Reconciliation Act passed, but it was firmed up as far as what things to be included on the block grants after that.

There is still, with the administration and with the agencies, a certain amount of uncertainty since the appropriations bills themselves have not passed, as to what the exact impact of all of this is going to be. So, we are still in a certain amount of flux. We also do not know what the regulations are going to look like, in some instances that could have an impact on program administration. But we are in the process now where the task forces are going to be holding their first orientation meetings next week; we are getting that process underway.

If there are any questions you have, I will be happy to try to answer them.

Representative HAMILTON. I thank you for that outline.

Now on the task forces, those task forces, you said, will make recommendations to the Governor and to the Indiana State Legislature. Those recommendations, of course, are nonbinding and the Governor can accept them or reject them.

Ms. KENNELL. Yes.

Representative HAMILTON. Is the State financing these task forces, or is this all a volunteer effort?

Ms. KENNELL. The State will finance them to the point of expenses and that sort of thing. The legislative members will be paid for through the Indiana General Assembly for their expenses, per diem and travel. The Indiana State Planning Services Agency will pick up the rest of the expenses.

Representative HAMILTON. Do they conclude their work with the recommendations, or are they an ongoing task force?

Ms. KENNELL. Well, it varies. And quite frankly, that hasn't been totally firmed up. With education, because of the way the Budget Reconciliation Act is written, that one will likely be ongoing because it is required to advise the Indiana Department of Public Instruction or the education agency in the State on an ongoing basis; so, that has a much longer term. With the others, we are looking now at whether or not to opt in on October 1 or January 1 or whatever, during that transition period. It is possible, after that, that we might use them for an ongoing evalution type of mechanism, but we are really not positive yet.

Representative HAMILTON. The Governor, in his testimony, spoke about restrictions on administrative flexibility that he found in the block grant proposals. Could you elaborate on that for me?

Ms. KENNELL. I think that some of the main causes of this are with maintenance-of-effort type provisions which limit the ability of the State to do anything except pass on the budget cuts. If you look at the preventative health, health services block grant, where you have nine programs involved there, well, first of all, the rape crisis program is taken out of that context with its own criteria; so, that is one place where you have no flexibility. And then if you look at the preventative health and health services block grant, where have to maintain the program level at 75 percent of the 1981 program level; so, there again, you have lost a certain amount of flexibility in moving programs or funds.

In the alcohol, drug abuse community mental health block grant, there are even probably more restrictions in that every community mental health center that was funded in 1981 and eligible for fund-

ing you must continue at some level. Now, it is not quite certain at what level. There is also in that block grant an additional problem in that for your funding base and for your funding cuts, for the alcohol program, you use the 1980 fiscal year as your base year, but for the mental health programs the 1981 fiscal year as the base year.

So all of those kinds of factors, coalescing, make it difficult for the State to have some flexibility.

Representative HAMILTON. Do you really look upon those kinds of requirements in the law as being onerous?

Ms. KENNELL. In the sense that they limit the State's flexibility to actually go with the block grant concept, where you get the money in a broad area and it will be then the State's—along with the local governments and the provider groups and whatever—responsibility at that point to develop a delivery system. Those kinds of maintenance-of-effort provisions do make that very difficult.

Representative HAMILTON. Now you also have in the law, of course, provisions which permit you to shift up to 7 percent or so, don't you, of funds, which give you some flexibility?

Ms. KENNELL. In some instances, yes, but that isn't uniform. If you take, say, the four health block grants, the maternal child health care block grant, and the primary health block grant, while they can receive 7 percent from the other, two health block grants cannot transfer anything out; or, there are different restrictions on that where those transfer provisions are not uniform necessarily.

Representative HAMILTON. That is correct.

Ms. KENNELL. But, yes, we do look at that as a very positive aspect.

Representative HAMILTON. Over a period of time, that could become a fairly significant factor, could it not?

Ms. KENNELL. Yes.

Representative HAMILTON. And it helps actually in the transition problem that the Governor referred to earlier, does it not?

Ms. KENNELL. It should.

Representative HAMILTON. Yes. Well, at least that's the purpose of it.

Now, is it your judgment that the State is going to be able to handle these block grants with present staffing levels of the State and possibly a decrease in staffing levels?

Ms. KENNELL. Yes. I think the State has been handling—with maybe some minor modifications—has been handling most of these programs already. If you look at the title XX program, the State has been handling that basically as a block grant concept all along. And really, there would be no probable staffing pattern changes in that.

The only way you would have any major need—and the only ones would be community development and community services—is where the State had not been involved before. However, with community services, we do have a State agency that has been made; the Community Services Administration which maintains liaison with that program, and we are not anticipating any big difference.

Representative HAMILTON. So it's the judgment of you and the Governor and others that the block grant programs will not require any additional staffing in the foreseeable future.

Ms. KENNELL. I am not going to say it will not require any at all. I am saying, as an overall impact, it will not because, where we might have increases in one place, we might be able to balance others.

Representative HAMILTON. Well, let's take the overall approach, then. It is your judgment that overall in the administration of the several block grant proposals, or statutes now that are before you, it will not take any increased staff in the foreseeable future.

Ms. KENNELL. That is right.

Representative HAMILTON. Now what about the general area of accountability? How are you going to deal with that? How are you going to be accountable for these funds?

Ms. KENNELL. You mean, to the providers or to the Federal Government?

Representative HAMILTON. Yes, to whom are you accountable? After all, as I understand it the Federal Government in fact writes a check to the Governor and he has to operate within the general parameters of the law to use those funds for preventive health care or whatever, but there are very few guidelines except the ones you have mentioned that are written in. And to whom does he account? These are public funds? How does he account? What's the mechanism of accountability?

Ms. KENNELL. The Budget Reconciliation Act includes provisions on the annual audit procedure.

Representative HAMILTON. Is that annual or every 2 years?

Ms. KENNELL. It is basically annual. There are different requirements for the first year.

Representative HAMILTON. And that's an audit, an accountability, as it were, to the Federal Government.

Ms. KENNELL. That is right.

And then obviously for the expenditure of funds or for any major program changes, the Indiana General Assembly must appropriate that money. So there is definitely accountability within the State at the point through the representative system.

Representative HAMILTON. And are you thinking about any further accountability requirements other than, really, the fairly minimum accountability requirements written into the Federal law?

Ms. KENNELL. We have not to date. Beyond the audit requirements and whatever are there, along with dealing with the Indiana General Assembly and getting that kind of approval, we have not developed a further mechanism of this sort. And then, of course, the Indiana General Assembly must hold hearings some time within the operation of the first year; and there again, you have a State government accountability type procedure.

Representative HAMILTON. You have heard the concerns that the mayors expressed. I think you were here, were you not, during their testimony and their concerns about the Indiana legislature and all?

Ms. KENNELL. Yes.

Representative HAMILTON. How do you respond to that?

Ms. KENNELL. About their concerns with the legislature being responsive?

Representative HAMILTON. Yes.

Ms. KENNELL. Well, I really do not agree with that. I think that the Indiana State government has been responsive in the past to the needs.

If you look at programs that the State has been involved in, if you look at State aid to education, there are very few strings involved with that. The money is set up in general terms, and goes down. The highway money is the same thing, where you have State money going to local communities with very few strings, and with a great deal of flexibility on the local people's part for developing programing.

Representative HAMILTON. What do you see as your major problems now in this program? What's your major concern at the moment? What is the major concern of each of your people here now? I presume you have had an opportunity to look at this pretty carefully. What worries you the most?

Ms. KENNELL. They could probably each respond.

Representative HAMILTON. Yes, let them speak to that, if they would.

I guess it will be necessary for you to come up to the table, one at a time. I am sorry we don't have more microphones. But I really would like to know what you're concerned about in your area of expertise about these block grant programs. And you might want to say what looks good to you and what looks bad to you.

Would you begin by stating your name and your position? I think that would be helpful to me and also to the reporter.

STATEMENT OF DON BLINZINGER, DIRECTOR, INDIANA STATE OFFICE OF SOCIAL SERVICES, INDIANAPOLIS, IND.

Mr. BLINZINGER. Mr. Chairman, I am Don Blinzinger. I am currently director of the Indiana State Office of Social Services, the agency that has responsibility for administering title XX.

By virtue of that fact, in all probability we will be asked to accept some responsibility for implementation of the social services block grant. The primary concerns that I have at this point, in terms of moving from title XX as it was, to the social services block grant, administratively, fall really into two areas.

I am concerned at this point that it seems to be the position at least of the Department of Health and Human Services that, unlike some of the other block grants, there really was no intent on the part of Congress to provide for a transition period away from title XX, as it existed earlier, into the social services block. I have been told that the primary rationale behind that was the fact and the belief that unlike the other block grants or many of them, at least, to the extent that title XX had already been coming to the States, that there should really be no extensive preparation, no modification, no extensive change that in fact the State ought to have to undergo.

I fear that that line of reasoning may be shortsighted in the sense that two things are happening as we move from title XX, categorically, to the social services block, those being that, first of all, we are seeing a reduction in funds because the overall level of support for the program has been reduced. Given the fact that at least in the State of Indiana the State fiscal year overlaps with the Federal fiscal year, Indiana will be asked, without a transition period, to confront Federal changes, from a fiscal standpoint, at the beginning of the second quarter of its State fiscal year. It makes it difficult from an administrative standpoint, certainly in my instance. I think it makes it even more difficult for the Indiana State General Assembly to react to the responsibilities they are now being accorded, if you will, under the block

grant concept, to have to confront changes in the middle of the stream, so to speak.

It would be much, much easier from a fiscal standpoint, given the fact that priorities are going to have to be established and basic decisions are going to have to be made in terms of where the State stands on the whole matter of social services, for the State to at least have the latitude to confront that issue coincidental with its normal appropriating action and its legislative session, so as to be permitted to implement the block grant at the outset of the State fiscal year rather than being forced to confront it at the outset of the Federal fiscal year.

I think the second thing that would cause us some concern at this point is the fact that obviously one of the keynotes to the block grant concept is the lessening of Federal regulations. While we have not seen the extensive and onerous regulatory basis for title XX in the past, as it has been the case with other programs, we have nonetheless had Federal regulations. We are led to believe, as we move to the social services block grant, even though that will continue to be what has been title XX in the past, that regulation will be reduced. To the extent that we are currently operating administratively, on the basis of what had been earlier Federal regulation, we may be in a position as of the 1st of October to make up our own minds, to a certain extent, about what regulations should look like or not look like.

It will be good for us to understand, which we don't at this point, just exactly what the specifics of the Federal posture will be with regard to any dictates or directives that may be laid down by the Federal Government for the State to have to adhere to. This is another factor that makes it exceedingly difficult for me to contemplate moving to the social services block the 1st of October. I simply am in the dark at this point about what requirements we may have to confront from a Federal mandate standpoint, on the one hand, and, on the other, what kinds of responsibilities from a regulatory standpoint that we the State may have to effect.

All of those things make it, I think, very critical for both the administration and the Congress, if at all possible, to go back and rethink—if in fact in the first instance they did not intend the States to have a transition latitude with regard to the social services block grant—the wisdom of that posture. And hopefully they will see and there will be some indication that it was maybe just a little bit shortsighted and that States should in fact be allowed that transition latitude.

Representative HAMILTON. That's very helpful. Thank you, Mr. Blinzinger.

Mr. BLINZINGER. Thank you.

Representative HAMILTON. I will just have each one of you come up, in whatever order you choose, to make a statement.

Mr. Miller.

STATEMENT OF BILL MILLER, ASSISTANT SUPERINTENDENT FOR FEDERAL AFFAIRS, INDIANA STATE DEPARTMENT OF PUBLIC INSTRUCTION, INDIANAPOLIS, IND.

Mr. MILLER. Congressman, I am Bill Miller, Assistant Superintendent for Federal Affairs in the Indiana State Department of Public Instruction.

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One of the primary concerns that we have right now is the timing of when the block grant goes into effect, along with the elimination of the rules and regulations for the various programs that are going to make up title XX. The Secretary has already promulgated that the title II regulations will end September 30, or those categorical programs in there. However, what he has done or what the law has stated is that July 1 is when the block grant system goes into effect as far as allocations and any outstanding balances then in the categorical programs will be folded into the various block grant programs.

I don't want to sound selfish here, but one of the problems we see is that there is a certain amount of money that we already have budgeted for people in our department. What's going to happen, under the present way we interpret the law, 80 percent of those salaries will be put into the block grant system for distribution to the local education agencies. So, we could be hurting a little bit just on a technical problem there, that hopefully can be cleared up; because while you can commit services and so forth to the LEA's and have contracts, the one thing you can't do under the Federal Government statute is commit salaries. So, I don't think at this point the State legislature is going to take up that 3-month gap. That's something that I know the Indiana Council of Chief State School Officers is going to work on.

The other problem—and maybe it's not a problem, but we want to address it on that basis—is that 80 percent of the money that comes into this State, which will be about $13 million for those title II categorical programs under the block grant, will be immediately passed through to the LEA's with only an application and without the ability of the State educational agency to say, "Yes, this is a good way to spend it," or "No, it is not a good way." I am not saying that they are going to spend it wrongly.

One of the problems that could occur, although, is that the State has to come up with a plan—and this is going to be a plan put together by the department of public instruction, by the legislature, by the Governor—with the ideas of where the State should go down the line in the role of education, since by constitution Indiana is responsible for education. We could see great variance with the ways some of the local educational agencies are spending moneys as against the way the State feels they should spend. However, my feeling is at this point that's not going to happen. We have a great deal of trust in them.

I think, by now, they understand where the Governor stands and where Mr. Negley stands. This State has been in the area of emphasizing basic skills—reading, writing, math, science, and that type of thing—for years; so, we don't anticipate any great problems. However, it could occur. That is a problem that may happen and one I don't foresee, but we may have to look at it and say, "Hey, somebody is spending too much money on library books." And I am not condemning the idea of spending money on library books, but maybe they are not putting enough money into the basic skills area.

I might mention, as far as what may happen as far as future employment, just from the 1981 appropriations bill—of course, education is forward funded, which we're using for this upcoming school year—we have now let 11 people go out of the Federal funding that we already have. So, since that's going to even out over the years, we

probably are going to be in pretty good shape once we make a determination as to how we are going to consolidate our present programs that we have set up, according to categorical nature. Of course, this has gone along with the production force as far as State employees.

And we think we can live with the reductions as they occur. This is the problem with title I right now. We are going into title I. We have reduced, had a reduction due to the 1981 bill; but, we haven't had any great rules and regulations reduced. So, we have lost four people and we are going to have to continue to enforce the rules and regs until such time as the Secretary says, "No, we're going to drop those out." So that's another problem.

But basically, we see no great problems with the block grant system.

Representative HAMILTON. Very good. Thank you, Mr. Miller.

I want to get all of this on record, from each one of you, so that we can analyze this transcript and see what kind of steps we think need to be taken at a Federal level to deal with some of the problems you are confronting. So, I will ask you to set this out, one right after the other, as quickly as you can please.

Yes, sir, would you introduce yourself, please?

STATEMENT OF AL GAGE, REPRESENTING JEAN MERRITT, EXECUTIVE DIRECTOR, INDIANA STATE COMMUNITY SERVICES ADMINISTRATION AND THE COMMISSION ON AGING, INDIANAPOLIS, IND.

Mr. GAGE. Yes, Congressman Hamilton.

My name is Al Gage, and I represent Jean Merritt who is the executive director of the Indiana State Community Services Administration at the State level and also the Commission on Aging.

I think in our discussions, as it relates to block grants we see no real problems in terms of the block grant approach and the transition of block grants to the State. Now primarily the Community Services Administration at the national and regional level have passed funds through not with the State agency but directly to the subgrantees, and so we have had no control over those funds—no monetary activities, capabilities, et cetera.

So the way the legislation is currently written, these funds will simply be passed through. So, I really don't foresee any serious problems there.

There will be a reduction in funding, as all of the block grants are experiencing, but I believe the reduction is less because of the amounts of moneys set aside—not only at the ntaional level but at the regional level. So although there is going to be a reduction in moneys going to the agencies, I think the overall reduction is not as bad as it could be.

Second, the second program that we run at the Community Services Administration is the rural income energy assistance program, and again I witness currently no real changes there. These funds come through a State mechanism that we have established, which will be going to a third year, called the SAFE program. And the amounts of funds coming down have not experienced a reduction as yet; so, we visualize that system continuing to be in place. One of the things that we have done here and it is our intention to continue to do is tie that

component in with, again, the service providers at the local level, which we have done now for the last 2 years that we have operated the program. So again, I visualize no real change there.

As it relates to the commission side of our whole operation, the only funds that we're pretty much up in the air about—and we have no answer—are the title XX funds that are coming through. And there, we recognize and understand that there will be a reduction, the amount of which we don't know. That is something that, as Don Blinzinger has indicated, is still pretty much up in the air; and, we have got to just wait and see, you know, to find out. So the Community Services Administration at the State level, CSA–COA, if you will, really encouraged the block grant approach because, as we see it, what will happen is the restrictions on the program delivery as we have delivered it to date have been with the changes in Federal regulation or the descriptions at the Federal level in terms of the delivery of services.

We have witnessed a reduction in those various restrictions which will give the State a little more latitude to in fact encourage further the federalism that we have been practicing with the community action network in the State of Indiana all along.

Representative HAMILTON. Thank you, Mr. Gage. We appreciate it.

Mr. Yoho.

STATEMENT OF BOB YOHO, DEPUTY INDIANA STATE HEALTH COMMISSIONER, INDIANAPOLIS, IND.

Mr. YOHO. I am Bob Yoho, Deputy Indiana State Health Commissioner. And I will be brief, because I know you are short on time. I will just make short statements rather than elaborate on it.

I should say that we generally favor the block grants and I probably more than anyone else in our organization, because I lived through the time of the old categorical grants where, if you bought a motion picture projector with cancer funds and showed a heart film on it, you got an audit exception. And that does happen and did happen.

There are some shortcomings. I think it will be difficult when we try to explain why there's a different requirement for the expenditure, let's say, for hypertension and then in the same grant area you can spend anything that you want for emergency medical service, little or great. Now, that's going to be difficult to get across to the public.

Representative HAMILTON. Yes.

Mr. YOHO. I think the other thing that bothers us is the skimoff that's possible in some of the program areas at the Federal level. I believe it's in MCH, in particular, where they can pull off 15 percent at the Federal level for special projects. Now that's getting back again to what we ran into when we had the old 314B, and then we began to have special concerns that were dealt with. And we got back into the categorical again.

One complication that we have in making a wise decision about opting in, let's say, in October or later, is that you might be a little reluctant if you realize in the next fiscal year we're going to have to be dealing with and presenting a budget to the State legislature with all of the uncertainties connected. You might decide to opt in now, for that reason alone. It would have a bearing on what you did.

Another area that, based on experience, bothers me some is the programs that will now be in the block grant that were not administered by the State agency but went directly to the community, such as rodent control. Now, if the people at the Federal level, the national group that administers that program, is greatly concerned about the thing that you asked about earlier, who is going to be accountable, then they should make it more descriptive, the accountability, than they did when they were administering the program. This makes it extremely difficult for us.

The only reason I mention that is we have experienced that in other grants in the past, MCH in particular. And I might say that the block grant in the MCH area certainly is going to be more useful to the States than the present manner, with the kinds of restrictions that we have on MCH programs at the moment.

One thing that bothers me—and I haven't heard it here at all from you folks in Congress or in the testimonies that were given before—I have always felt that protecting the public's health—and this, I am editorializing now—is a shared responsibility between the Federal, State, and local units of government. And I think, again, there's a little bit of the implication in even the block grants here that implies that the Federal Government is doing the States a favor, or the local communities a favor, by making funds available. I am submitting to you that it is a responsibility of the Federal Government, along with the State and communities, to help protect the health of people.

Representative HAMILTON. Sure.

Mr. YOHO. And I honestly don't feel it's so much whether you have a block grant or a categorical grant; it's the manner in which it's administered both at the Federal and State levels. We'd have had no problem if there had been proper input from the States into the programs before they were mandated and handed down to us.

Thank you, sir.

Representative HAMILTON. Thank you, Mr. Yoho. We're pleased to have you.

Mr. J. JONES. Good morning, Congressman.

Representative HAMILTON. Good morning.

STATEMENT OF JOHN JONES, INDIANA STATE ASSISTANT COMMISSIONER FOR MENTAL HEALTH, DIVISION OF ADDICTION SERVICES, REPRESENTING DENNIS JONES, COMMISSIONER, INDIANAPOLIS, IND.

Mr. J. JONES. My name is John Jones. I am assistant commissioner for Indiana State Mental Health, Division of Addiction Services, and I am representing Dennis Jones, who is Indiana's commissioner of mental health and who is unable to be here today.

Our commissioner has barely had a chance to be in his office in this past month, but we have been facing a number of meetings with the commissioner in looking at the ways in which the impact of block grants will be felt within the department. I think I have to make clear that the impact is not singular. It is, rather, quite complicated.

If I may, looking at the mental health, drug, and alcohol abuse block grant, as pointed out before, your base year for drug and alcohol

programs is fiscal year 1980. Your base year for mental health, meaning community mental health, in particular, programs, is fiscal year 1981. And it does make quite a bit of difference to the particular divisions as to the year of the base. And, of course, developmental disabilities is not, in fact, directly affected because it remains in categorical programing at least for the coming year.

My concern for the entire department is that we are seeing and we have seen, a rather steady and at times dramatic increase in the demand for services in the mental health field. And the shift of responsibility for block grants, as long as we have the authority to make decisions on the State level that's great. I am supporting what was said before about this confusion and some contradiction over what in fact will remain after October 14 in terms of Federal regulation. But we have seen this demand increase, and there are issues particularly with children and adolescents and with the chronically mentally ill that we are hard-pressed to face even at our current funding levels.

And with the reduction of the Federal funding, particularly in your community mental health centers, we are, in fact, shifting the burden for the support of those 28 centers, in a large sense, back to the communities. I think you are going to see an erosion of service, of their capability to provide basic services in the community. And for the large number of people in every community who do not have private resources, the community mental health centers literally stand as the only resource. And, we are quite concerned about that. The burden shifts, if you will, to the State and to the local community in a somewhat precipitous fashion.

The effect, for the first year, is somewhat mitigated by the fact that you do have some mechanisms by which you can carry over funds from year to year. And I am glad to say we will have that year as a time in which to develop some priorities, because it has been thrust upon us in a rather rapid fashion. But we can live with it, and I personally favor going to the block grants.

We have been dealing with block grants in the alcohol and drug abuse field, which is my area, for quite some time, because the way in which we get the money, the bulk of money, is through the old formula system whereby each State is allocated a specific amount of money; and we, largely at our discretion, can determine how to allocate that money in the alcohol and drug abuse areas. Th re are very few strings attached to that, and we have found the institutes quite willing to work with us and to be flexible.

One big advantage of going through the block grant is that, for the first time, we will have—I am talking now about drug and alcohol abuse—we will have, for the first time, a single amount of money that will cover not only the funds that we have previously received but will also bring in three project grants from the National Institute on Alcohol Abuse and Alcoholism that have previously been independent. They occur at different points during the next year, and we have already been in negotiation with the one community mental health center, Midtown Community Mental Health, here in Indianapolis, which holds two of those grants. And they are working with us, in their subcontract to the Salvation Army, to make an adjustment so there will be no interruption of service on December 1, when the grant would formally end.

So, we are moving ahead. The impact in the department will be felt. I think the most tragic piece of this is the reduction in title XX: that is going to hit every part of the Indiana Department of Mental Health. And if I may speak to my area, we have eight detoxification centers throughout the State; and, quite frankly, we are scrambling to find a way to get those programs through this year.

We do have additional State funds for alcohol and drug abuse this year, through the wisdom of the legislature, which will bring in approximately $3 million a year. So, you have to look at the department of mental health in different ways and in different segments.

Representative HAMILTON. Thank you very much, Mr. Jones.

Mr. J. JONES. Thank you, Mr. Chairman.

Representative HAMILTON. Mr. Rizzo.

STATEMENT OF RAY RIZZO, CHAIRMAN, INDIANA STATE HEALTH BLOCK GRANT TASK FORCE, INDIANAPOLIS, IND.

Mr. RIZZO. Thank you very much, Mr. Chairman. I am Ray Rizzo. My perspective is a little different, because I am the chairman of the Indiana State Health Block Grant Task Force that Governor Orr has created. I would like to share a bit of my thoughts as to what I see the purposes of this type of operation and mission and hopefully the goals that will result.

Basically, we see three purposes for the task force type efforts: first, to establish a common base of information upon which the following decisions that will have to be made by State government, by the providers and by the recipients can be accomplished; second, to provide the public with a frame of reference for understanding and evaluating the future decisions that are going to have to be made in the various proposals that will be advanced; and, third, to firmly fix the dimensions of the task that the State of Indiana is going to have in adopting its operations to a block grant approach in the minds of the task force members, particularly the legislative members.

So our view of the mission of the task forces is that we hope to offer ourselves as a facilitator to State government, the legislative and executive branches, where ultimately the decisions will have to be made, and to the recipients, the providers and the program operators at the local level.

As Ms. Kennell outlined earlier, we will be anticipating having our first organizational meeting of the committees within the next week to acquaint the committee members with the task that we will be undertaking and then immediately embark upon approximately four to five hearings at various points across the State, at which we will undertake our effort of both providing information and then hearing the constructive suggestions, concerns and criticisms of the recipient, provider and administrator in the community. We view this role as being very critical to the effective work not only of the block grant program but to the basic effective operation of government as a whole.

And we think that once the public, the recipients, the providers and the program operators begin to have a more complete understanding of the operations of the new block grant program then we'll be able to provide them to the Indiana General Assembly and to the State

administration a form in which the information that they are going to require to make positive decisions will come about.

Representative HAMILTON. Well, thank you very much, Ms. Kennell and your group of experts. I am very appreciative of it, and I know you are going to be the ones maybe even principally affected by the block grants. And how well you do your job is going to mean how well the State of Indiana does in meeting its responsibilities under these block grants.

Ms. Kennell, I will give you an opportunity for a sum-up here. If you have any such sum-up, we'd be pleased to hear further from you. It's obvious that you have a very capable group to work with.

Ms. KENNELL. Thank you. We think so.

I would just like to make one comment. The only area that was not covered was community development. As Governor Orr said, with community development the State will not be opting to take over that program on October 1. There are some very practical considerations there.

The HUD regulations will not be done until—well, for the first review, I think the schedule is the end of September. And we will not have an opportunity then to review those. But as a practical matter, we have been assured by HUD that the regulations will not be effective even through the entire process until January or February.

In addition to that, the contracts, the HUD contracts have gone out on a 12-month period. Most of those will not end until August, which means that no communities in the State will be in a bad situation or have trouble if we do not immediately take over this block grant. For that reason, we thought we would take a little bit of extra time to look at exactly what was being done, what community expectations and needs were, before we opted into that block grant.

Thank you.

Representative HAMILTON. Well, thank you very much, Mr. Rizzo, and Mr. Gage. Mr. Yoho, Mr. Miller, Mr. Blinzinger, and Mr. Jones. And, Ms. Kennell, we thank you kindly for your participation this morning.

The next witness will be State Representative Stan Jones. Stan, I will ask you to come to the table there, if you would please.

We are very pleased to have you with us today, Mr. Jones. We appreciate your coming and we look forward to your testimony. You may proceed.

STATEMENT OF HON. STAN JONES, INDIANA STATE REPRESENTATIVE

Mr. S. JONES. Thank you, Congressman Hamilton.

I welcome the opportunity to testify on the block grants, because I have hoped the Indiana State Legislature will have a large role to play. I have got several concerns, which I would like to outline briefly.

No. 1 is the reduction in the expenditure of money in these social service areas. It concerns me that, in this area, the Federal Government has chosen to try to balance the Federal budget by passing the responsibility to make those cuts on to the States—after President Reagan has grabbed the headlines about cuts in the Federal budget.

I think that the State has the dubious honor of passing out four life preservers to five people rather than really dealing with block grants.

I see we have two separate questions, the question of block grants and the question of reduced funding. You have heard testimony already this morning that those cuts will not be completely absorbed simply by reducing the bureaucracy. That concerns me, that the heat will be transferred to the State. Second, I believe that many people have talked about the transference of the responsibility to the State. It's my understanding at this point in time that that transference of responsibility is only to the Governor and that the legislature, per se, does not have a legal role to play. The legislature could choose by its own laws, I presume, to take a role; or, the Governor could choose to include the legislature. But historically, in the expenditure of money in the State of Indiana, the legislature has had a very significant role to play and I would hope it would in the future.

I am concerned, too, about planning for these block grants. The State of Indiana, last year, cut its State Planning Services Agency—which you have just heard from recently—from an appropriation of $311,000 down to $100,000. So it practically gutted the Indiana State Planning Services Agency, obviously not in anticipation of the block grants.

I am also concerned, echoing earlier comments, about the lack of time between the implementation of the block grants and the opportunity for the State to deal with those questions. As you're aware, we have a citizen-style legislature and we will not meet in full session until January. It is quite clear that some basic decisions will be made right now, before the legislature will even convene in January.

I am concerned, too, about the evolution that these block grants will take. Having been in the legislature for 7 years and watched the implementation of title XX and now the disappearance of title XX. and seeing most of the evolution of Federal revenue sharing, I have some thoughts on what I see the evolution these block grants will take. I think probably immediately that the State will choose to deliver the money on a percentage reduction basis, much as the way it's being spent now, both because it's easier and also because the "forces that be" tend to call that an equitable distribution.

But gradually I see that the money that comes from these block grants will be shifted more and more to State functions, that is, the Department of Mental Health, the Department of Corrections, and away from private agencies out in local communities, because I believe the State will seek to protect its own turf over time. I think the evolution of title XX, where initially the State—as a program provider—was very limited, it now provides a very large number of the programs for title XX as opposed to private community agencies. I see this happening potentially with block grants over a period of time.

The other concern I have about block grants—as I have said, I have seen the rise and fall of Federal revenue sharing and of title XX—there's no question in my mind, from what I read, that it could be very easy in 4 years or 5 years for the Federal Government to say that this shall go the way of the States' share of Federal revenue sharing; we have now reduced our tax load on the public, which has given the States an opportunity to raise more taxes; and, if they want to

carry these programs on, they can. The identifiable programs will be difficult to see, being different in 50 States; and, the constituency behind those programs will be difficult to see for Congress. And so I think that 4 or 5 years down the road it will be very tempting to just eliminate block grants entirely.

Again, some of my information is so recent that I am not sure of the veracity of it. Finally, and perhaps my biggest concern is the elimination of the requirement for the expenditure of the money to be in certain target populations. Title XX, for example, I believe 50 percent of the money had to be spent on AFDC recipients or income-eligible recipients, as a target population. Now it's my understanding that the new block grant will not require that. The old block grant, requiring that, did come across as a burden but I think a necessary burden to provide the services to those people that most needed it. I am a little surprised, with all the talk about the safety net, that a target population wouldn't continue to be identified in these block grants, because I believe the tendency of the agencies will be to serve those who it's easiest to serve and not those who need it the most. I would encourage Congress to give some rethinking on that target population concept; because if we're really going to have a safety net, that should be an important part of it. I don't know—the legislature has not met—I don't know if that will be a consideration by the State of Indiana.

I suppose, in summary, I am concerned about the lack of lead time given us. I am concerned about the State's inability, not having the resources to plan adequately in this short amount of time. I am concerned about the State having to make these cuts. As you are aware, Congressman, the State has been rather frugal or meager, depending on one's outlook, in the past, in many of these social service areas.

And finally, I believe that we need to concern ourselves with how the block grants will evolve over time. What will they be in 4 years? They could simply be more money in the State's pocket. For example, with Federal revenue sharing, the States share. Initially, it was simply dumped into the general fund of the State of Indiana. Then after the Federal audits required an audit trace, a public hearing was held and it was determined the easiest thing to do would be to put it in the Indiana teachers pension program, clearly not very imaginative. And the public hearings were very poorly attended and there was one every year, only to meet Federal requirements. And I see that block grants could become, "What is the easiest way to dispose of this money?"

And finally, my concern about the target population. If we are going to reduce the amount of money available, then let us at least try to get it to where the need really is. We have seemed to be very targeted in what we have done federally with tax relief, to make sure we're getting at the very rich; we could make sure what services we have left should go to the poor and very poor.

Thank you.

[The prepared statement of Mr. S. Jones follows:]

PREPARED STATEMENT OF HON. STAN JONES

The receipt of the so-called block grants by the state is hardly a cause for rejoicing. The supposed value of block grants is that they will facilitate a ra-

tionale allocation of resources at the State level. There are several fundamental reasons why this will not and cannot occur.

First, the States are being asked to make the difficult decisions involved in the balancing of the state budget which the President is apparently unwilling to make. The President and Congress are more than willing to capture headlines by proclaiming their willingness to cut Federal spending but both by their unwillingness to vote on specific sections of the budget and go record on specific program cuts and by the manner in which the block grants are structured, they have shown that they are unwilling to make the tough decisions needed now that they have cut the level of federal program expenditures.

That job is being handed to the States through the 1981 block grants which contain budget cuts far greater than any level of efficiency that might be expected on the local level. From the comments made by State Budget Director Judy Palmer concerning these cuts, Indiana stands to loose 12 percent overall; with a 21 percent reduction in social service funds and 24 percent in health services. Although our State had a large surplus a few years ago, we do not have the fiscal resources to make up those cuts at this time. Nor do I believe that we can expect to achieve the efficiency in delivery required to make up those cuts. For one, we have virtually abolished our State Planning Services agency at just the time when their ability to provide recommendations from efficient operations are most needed. Second, I believe the overhead cost of a state initiated program demonstrates that asking the state to undertake new administrative responsibilities has a specific cost.

There are, therefore, three clear results which will result from the cuts embodied in these Block Grants.

1. Cuts in Federal funding will inevitably reduce benefits to those in need.
2. There is no immediate possibility that cuts in federal funding can be replaced by new State revenues or by the voluntary sector.
3. There appears to be no way that reductions in administrative overhead can immediately replace a 25 percent reduction in federal funding.

There has been no opportunity provided for the state to plan for the rationale allocation of these resources. Authority has been transferred to the state to administer nine new block grants, yet there will be no legislative guidelines under which these programs will be required to operate. The reason for this is that our legislature will not be in session until a one-day meeting in November followed by renewed meetings in January. Even if the state does not opt into the block grants until next year, it still must face the budgetary cuts in the categorical programs with no opportunity for the Legislature to supplement them.

In short, the Federal government has delegated to the states the authority over these grants, but has not allowed the states time to make policy regarding these funds. Policies, standards, and regulations may be needed, yet there is no mechanism to formulate these policies to October 1.

It is equally important to recognize another point in this shift of power; federal authority is not being sent to the states—it is being sent to the state's bureaucrats. This aspect of the President's proposal will radically alter the way in which state governments function.

President Reagan has described the block grant proposals contained in this year's budget as more than just a "mere strategy" in this year's budget plan—he has called them "a federalist tool for transferring power back to the state and local level." This transfer of power "back to the states" has been described by the President as part of a program "to restore the constitutional symmetry between the central government and the states and to reestablish the freedom and variety of federalism."

In comments of this type, the President and those promoting the Block Grant system are fond of saying that the federal system is a partnership between the states and the federal government, with duties and powers defined and divided between each branch of government. In drafting and passing their Block Grant proposal, it is too bad that those proponents overlooked the fact that state government is also a partnership—between our own executive and legislative branches of government. This system of governing has served the states well but will be radically altered by the adoption of the President's system of Block Grants that bypasses the elected representatives closest to the people—their state representatives and state senators—and transfers power directly to the state's bureaucrats. This aspect of the Block Grant program raises serious question which must be addressed at some future date or the very nature of the state governments we have will be radically altered. The problems this shift of power will raise in state

government can be seen in a brief review of specific problems in Indiana fiscal situation.

The state is already in a revenue pinch caused by the implementation of a mini-Kemp-Roth type tax cut in the state two years ago with the impact being felt in funding for public schools and increased property taxes. Now the funds for needed health and social service programs are cut back on the order of 21 percent–27 percent, counting the further impact of inflation on what these funding levels will buy.

There is no way the state can plan to take advantage of this situation. There is no way for the state to act in order to minimize the losses. If you want to provide greater local and state control over programs, then you must give the program makers time to enact legislation. Enactment of programs is not the responsibility of the executive branch of state government. It is the responsibility of the legislative branch. The executive branch must carry out the law, not make it.

Let me give you some examples: Under Title XX, 50 percent of the Title XX funds were required to be used to provide social services for welfare recipients and funds restricted to those with incomes that did not exceed 115 percent of the state's median income. Under the new block grants, the executive branch can use those funds to provide social services to anyone regardless of their income. There will be a tendancy to use those funds for those with the greatest political clout—who are usually not the poor.

Furthermore, Title XX funds were frequently used to finance the incremental growth of social service programs thereby replacing state funds. These funds thus entered the budget of a number of state agencies and in effect replaced state funds. However, some Title XX funds were used to expand programs and create new programs, particularly programs of independent private non-profit agencies at the local level. Now guess which programs are most likely to be cut without any legislative direction and review. Furthermore, there are some agencies which will be more dependent on Federal funds than others. Simple across-the-board cuts may not be the most rationale way of distributing federal dollars, yet those decisions must be made by October 1 before the legislature ever meets.

The fundamental flaw in this whole program is that cuts on the order of 25 percent are being made in needed social services to the poor, needy, and handicapped in order to provide 25 percent tax cuts to the richest taxpayers in the country. The cuts attack those programs which have provided the safety net for low and middle income families. Yet the tax cuts single out the richest for the greatest benefits. Such a program is perverse.

It is no wonder that in the face of these cuts, that the various interest groups prevailed upon Congress to restrict the flexibility of the block grants themselves.

I realize we must attempt to make this program work even though it will be difficult. To do so requires full information. As of yet, the details provided by the federal government to the states are sketchy. Furthermore the mechanism for disseminating that information to the policy makers in the Legislature is poor.

Representative HAMILTON. On the targeting question, do you think the Indiana Legislature now will take an interest in that and try to do the kinds of things you are suggesting?

Mr. S. JONES. I think there will be probably a lot of interest in that, but I think it will be difficult for the State to define that level. There will be resistance among agencies, because it does put an additional burden on those agencies to find those clients. And we have seen that in title XX; that the department of mental health, for example, has had a difficult time finding those clients. If we remove that burden, I am afraid they won't find them at all. And I think that that resistance will be prevalent in the administration.

Representative HAMILTON. I just don't think it's likely, in the near term, that Congress is going to go back now to this legislation and begin to put provisions into the law with regard to targeting. That doesn't seem likely to me. Now, it may develop 4 or 5 years down the road if in fact significant segments of your population are ignored; but, your action in the Congress almost certainly will be to pass the block

grant program and set it up—you run with it for a while in the States and let's see how it happens. So if you are going to accomplish the kind of things that you are talking about, it seems to me it's going to have to be done through the State legislature or through the Governor's recommendations.

How do these task forces strike you? Do you look upon that as an invasion of legislative responsibility?

Mr. S. JONES. I have got mixed feelings. I think the block grant problem is going to be difficult, and some legislators may say, "Well, maybe it's just as well that we not participate."

But, yes; I look upon it as an invasion of the legislative role, the historic legislative role of government. And in the past, the legislature has had a lot to do with Federal funds, with matching Federal funds, dovetailing State funds with Federal funds. Many of these programs are jointly Federal- and State-funded programs, and I consider it an absconding of the legislative responsibility. I think that many legislators will have those feelings, too.

Representative HAMILTON. A majority?

Mr. S. JONES. Well, that's hard to say at this point in time.

Representative HAMILTON. Well, the legislature here, the assembly really hasn't discussed this block grant.

Mr. S. JONES. That's right. We have not been in session.

Representative HAMILTON. It has all been enacted since you were in session, so I am sure you will have an opportunity to get a real feel of it.

It really is difficult for me to think that over a period of time, with the block grant proposals, that the State legislature would permit the Governor to be the sole authority for setting rules of allocation, among other things. Now maybe, I don't have enough experience in the State legislature, but I can't imagine that Congress, for example, would accept that kind of thing over a long period of time.

And I think your statement early on about the manner in which the money is made available to the Governor is quite right. In effect, it's almost a blank check to the Governor, in broad areas. I would think the legislature would want to get into the action at some time. Do you agree with that?

Mr. S. JONES. I would agree with that assessment. However, as I look back and I was there when title XX was enacted, I believe that title XX, when it was first enacted, required the State to designate an agency to handle title XX; so, legislation was required. But at the earliest opportunity, in the first year, a lot of fundamental decisions will be made about how the original money may be delegated and what procedures will be used. And the formation of title XX had an awful lot to do with how those first few years went. And so I concur, that I think that over a period of time the legislature will say, "We want to be cut in." But I am concerned that some of the fundamental decisions may be hard to change.

Representative HAMILTON. On the basis of your experience with the administration—and I am not just speaking about Governor Orr's administration but the administration of State government generally—would you agree with the observation that has been made here several times this morning, that the administration of the block grant

programs can be handled without any increase in staff in the Indiana bureaucracy?

Mr. S. JONES. It can obviously be delivered, but can it be delivered with a reasonable amount of planning and with expertise? I have serious questions about that.

For example, I did not support the reduction in the Indiana State Planning Services Agency that Susan Kennell heads, in last year's legislature, because I don't believe that the legislature and the administration is prepared to make some sensitive decisions. If it's a matter of taking the money that is currently being sent out and applying some straightforward percentage reductions and providing the necessary audit trails, I think the State can handle that. But in terms of anything more serious, I don't think they can without adding staff.

Representative HAMILTON. Well, Representative Jones, I really do appreciate your interest and your knowledge of the block grant proposals thus far. I hope you and other legislators in Indiana will keep your eye on it pretty carefully, because I think it will become a major item for you and other State legislators across the Nation. Congress is not yet through with the consideration of block grants, and I think this is kind of an opening effort. And State legislators and legislatures across the country, it seems to me, should take a great interest in it.

Thank you for your testimony this morning.

Mr. S. JONES. Thank you, very much.

Representative HAMILTON. The final group of witnesses will be Mr. Ferguson, Mr. Goen, and Mr. Stephenson. I would like to request that they come forward, if they would, to the witness table.

Well, gentlemen, we are very happy to have you with us, to conclude the panel. I will just ask you to proceed. It doesn't make any difference to me which order you proceed in, if you have any preference. Mr. Ferguson, you're in the center and we'll just begin with you, if that's all right. You are representing the Association of Indiana Counties?

Mr. FERGUSON. That's right.

Representative HAMILTON. And I have your statement.

I might say to each one of you that your statements will be entered into the record, in full; and, I'd just ask you to make whatever comments you think would be appropriate for us.

STATEMENT OF EDWARD E. FERGUSON, EXECUTIVE DIRECTOR, ASSOCIATION OF INDIANA COUNTIES, INC., INDIANAPOLIS, IND.

Mr. FERGUSON. Mr. Chairman, thank you for giving our association the opportunity to present the views of Indiana Counties regarding the implementation of the Federal block grant programs. When the first announcements were made that various Federal categorical programs were to be consolidated and that the grants were to be made in the form of blocks, we were naturally concerned and apprehensive about the way in which this would be accomplished. Now that Congress has acted on several of the proposals, I must admit that many of our concerns still remain.

With implementation scheduled to take place on October 1, we find that we are faced with a package of block grant laws in which no two are alike and in which inconsistency seems to be the rule, rather than the exception. The single common thread among the block grant laws is the predominance of the State role in receiving funds and admin-

istering the programs. The emphasis on the role of State government serves to confirm what some county officials have felt all along that local government was left out of the development of the proposals of the administration and the legislation enacted by the Congress. In our opinion, the term "local government" does not translate to "State government," yet this is the meaning which seems to have been given the term by those who participated in the development of the block grant legislation.

Counties and county officials feel that a number of points need to be made with regard to the block grant concept. Our views apply not only to those block grants already enacted, but also to those still under development by the administration and under review in Congress:

First, we agree that Federal grant reform is necessary and desirable, but it should be designed to result in an intergovernmental structure that results in a partnership which meets National, State, and local human needs in an economical manner.

Second, local governments are the closest to the people and are, therefore, likely to experience the greatest pressure and impact as a result of Federal cutbacks.

Third, local governments have the least ability to tax because their powers to tax are derived from the State; historically, their primary tax revenues have come from the property tax.

Fourth, program priorities should be set by that level of government best able to deliver the services. This level is not necessarily the State.

We feel that block grants are a viable alternative to certain categorical grants provided that:

Programs are rationally clustered into blocks;

Funds are channeled directly to that unit of government which is responsible for delivery of the program or service;

Ultimate allocation decisions are made by local general purpose governments based on community needs and priorities and citizen input;

The criteria for allocating the fiscal resources is equitable;

The level of overall cutback can be accommodated with minimal change through the elimination of administrative redtape and mandates, and with productivity improvement and adjustments to service levels;

The transition is implemented so as to avoid administrative disruptions, fiscal adjustments, and interruptions of service; and

Local governments are not expected to finance with property taxes essential services that involve direct payment through progressive income taxes, and are best administered at the Federal level, and to a lesser extent the State level of government.

In our view, the States, now that they have been given the authority, should establish a methodical system for administration of the block grants. Governor Orr, as you have heard, is now establishing task forces to assist him in this process. We applaud the early initiatives of the Governor in this regard, and are ready to offer our input. We suggest that as a beginning, each task force should take the following steps, which will assure an orderly transition and a thorough analysis of the needs of the citizens of Indiana:

1. Assemble available data concerning each block grant law (type of program, composition, and funding level).

2. Based on current operating practices of the State and local governments, assess for each block grant whether it can be most effectively and economically administered under State or local control.

3. When programs are blocked in such a way as to make this determination difficult, separate the program functions into State and local components.

4. Examine the State and local components, and assess for each:

The total Federal revenues which now reach the State or local government under each program;

The State (or local) revenues which are required in order to match Federal funds (if any);

The State revenues which are now voluntarily used to support programs within the component;

The funds now flowing into the locality as a result of current distribution practices;

The equity of the Federal allocation system prescribed by the legislation;

Adjustments to the Federal allocation system which can be made by the State which would improve the equity of the allocation system;

The likely funding level to the State under the law's authorization and appropriation;

The likely funding level to each county under the law's authorization and appropriation, assuming allocations are made on the same basis as allocations under categorical grants were made;

Alternative allocation systems designed to reach more of those in need of particular services and programs; and

The level of cutbacks (and their impact) which must be sustained by the State and/or locality, and the possibility for alternative sources of funding.

In addition, each task force should identify affected public and private interest groups affected by each block grant, and attempt to incorporate their views into and elicit their support of any recommendations made.

Finally, each task force should consider the timetable allowed by the law for implementation. It is our opinion that, in nearly every instance, a delay in implementation would be advisable. Federal guidelines are not yet available, the Governor's task forces will need plenty of time to work, and the input of the State legislature (which will not meet until January 1982) is important.

Our association will make every effort to see that the block grant concept is given a chance to work. Our hope is that the State and Congress will listen to our views and that the citizens of Indiana who most need the services are not made "pawns" in a continuing political struggle for program control and resource allocation.

Representative HAMILTON. Thank you very much, Mr. Ferguson.

I think what I will do is hear from the others as well and then address any questions to the panel.

Mr. Stephenson, you are here representing the Indiana CAP Directors' Association——

Mr. STEPHENSON. Yes, sir.

Representative HAMILTON [continuing]. And speaking for that group, I presume.

Mr. STEPHENSON. Yes, sir.

Representative HAMILTON. Mr. Stephenson, you may proceed.

STATEMENT OF JERRY L. STEPHENSON, EXECUTIVE DIRECTOR, CLARK COUNTY COMMUNITY ACTION AGENCY (CAA), REPRESENTING THE INDIANA COMMUNITY ACTION PROGRAM (CAP) DIRECTORS' ASSOCIATION, INC., INDIANAPOLIS, IND.

Mr. STEPHENSON. Mr. Chairman, thank you for the opportunity to offer testimony concerning block grants as the new approach to federalism, and what effect this will have on the State of Indiana.

I represent 25 private not-for-profit social service agencies in Indiana, commonly called community action agencies. We offer services in 61 Indiana counties, administering a myriad of programs funded by both the private and public sector. In calendar year 1980, we served over 250,000 households in Indiana with a total budget of over $78 million.

In the ninth district, community action agencies served over 50,000 people in 1980 with resources from private and social, State, and Federal Governments in excess of $16 million. I have attached a partial list of services and the sources of our income.

This morning, I am here to discuss block grants impact on Indiana's elderly, the low-income, and the near poor. The approach of the new federalism is nothing new to the community action agencies in Indiana, where local people, including the government sector, the private sector, and the low-income sectors have been coordinating limited resources for the past 16 years in order to provide maximum benefits to the elderly, the low-income, and the near poor, in the effort to support self-sufficiency.

The State of Indiana has traditionally not dealt with the delivery of human services concentrated on bringing about self-sufficiency, but rather it has placed its emphasis on delivering welfare maintenance services. The State of Indiana has consistently and consciously used Federal social services funding to replace State appropriations required to operate State welfare programs.

The State of Indiana presently does not have a coordinated and consolidated approach to human services planning and delivery system of human services, which, in many cases, creates overlapping of services and administrative overhead. Therefore, the State must commit itself through legislation and appropriation of State resources to provide a coordination and consolidated approach to human services in this State.

The Economic Opportunity Act of 1964 insured local government involvement in the coordination and delivery of human services on the local level; however, with the new federalism, the local governments (and State governments) must reaffirm its commitment to continue the involvement of the private and particularly the low-income sectors in this process and decision making.

The State of Indiana, in order to reach the people most in need, with a decrease in Federal funds, must (1) create a State administrative agency to coordinate and consolidate human service planning and

services delivery, and (2) recognize and broaden the scope of the CAA's. who traditionally identifies and provides services to the most in need.

This administrative agency must be able to coordinate services for the elderly, the low-income, and the near poor that will prevent and or eliminate the causes of poverty. Therefore, the Governor, through this administrative agency, with input from the State legislature and local communities determination of their needs should be the vehicle used to target social service and community service block grant funds in order to reach the most in need in this State.

The recipients will be greatly affected by the transition to block grants unless the following steps are taken: One, the State legislature appropriates resources to offset the decrease in Federal funds, two, the State coordinates social and human services under one administrative agency, three, the State utilizes existing and experienced grassroot community based organizations such as CAA's for the delivery systems, four, allow flexibility for local communities to meet the planned, identified and emergency needs of its people. The reduction in services to the recipient is inevitable, however with the above mentioned steps this impact can be reduced.

The question now is centered on the transition period to block grants. This leads us to perhaps our major concern regarding block grants and that is of accountability. Indiana, with little or no questions asked, in the past 16 years has shown that human service needs are a low priority in State government. The second concern of CAA's is that there be no delays in channeling block grant funds into the States, which in effect will further disrupt and greatly impact on the services to the recipients.

Therefore it is our recommendation that the Federal Government assures the recipients of these programs that their needs will continue to be met by broadening the transition period until the State of Indiana has committed itself and implemented the above mentioned suggestions, not to exceed fiscal year 1984.

Mr. Chairman, I have two attachments for the record.

[The attachments follow:]

REPORT

THE IMPACT OF
INDIANA'S COMMUNITY ACTION AGENCIES
US CONGRESSIONAL DISTRICT 9

$57,864,015 to the District Economy

555 People Employed

645	Children Enrolled in Head Start and Day Care Programs
3390	Clients Enrolled in Health, Family Planning & Alcoholism & Drug Abuse Programs
1110	Clients Enrolled in Nutrition, Food Co-ops, and Consumer Education Programs
89,865	Meals Served
10,035	Clients Used Transportation Services
20,555	Trips Provided by Transportation Services
2540	Clients Enrolled in CETA Programs
12,375	Homes Rehabilitated and/or Weatherized
17,960	Clients Provided with Energy Assistance
40,905	Clients Provided with Outreach/Information Referral Services
8800	Senior Citizens Enrolled in CAA Programs
390	Former Low-Income People Employed

SOURCES OF CAA DOLLARS '9

Community Services Administration $1,949,732

Department of Labor $5,639,818

Department of Health & Human Services $1,865,999

Department of Housing & Urban Development $4,370,150

Department of Energy 2,267,098

Department of Agriculture 114,817

Action $43,805

Department of Transportation 0

Appalachian Regional Commission 0

Other Federal Sources $1500

Other State Sources $212,114
Municipalities $189,829
Private $60,000
TOTAL 1980 CAA DOLLARS IN DISTRICT
$16,532,576

MONEY SPENT IN OUR ECONOMY HAS A MULTIPLYING EFFECT. ECONOMISTS ESTIMATE THE MULTIPLIER TO BE BETWEEN 3.5 AND 7. THE MOST CONSERVATIVE FIGURE, 3.5, INDICATES THAT IND.'s COMMUNITY ACTION AGENCIES CONTRIBUTED

$57,864,015

TO THE DISTRICT ECONOMY IN 1980.

Representative HAMILTON. Thank you very much, Mr. Stephenson.

Now we will hear from James Goen who is the State director of Indiana Green Thumb. Mr. Goen, I am glad to have you.

STATEMENT OF JAMES M. GOEN, STATE DIRECTOR, INDIANA GREEN THUMB, INDIANAPOLIS, IND.

Mr. GOEN. Thank you, Congressman Hamilton.

Mr. Chairman, question No. 1 is how the State and local governments of Indiana can best adapt to the block grant approach to maintain maximum benefits to program providers and recipients in the State.

I would recommend that a bipartisan committee be formed in each of Indiana's 18 regional planning areas that includes low income people and represents both urban and rural segments of the planning area. This subcommittee could request perceived needs of residents of the planning area in order to utilize appropriate segments and amounts of block grants for the particular area considered which then can be presented to the State.

This recommendation is made because with reduced levels of funding, each dollar will have to be utilized for the services most critically needed by area. While several areas may have the same needs, others may have different concerns.

This would also allow local people living in the area to express their most needed concerns for social services. The recommendation that the subcommittee have rural representation is made because of the higher cost of delivery of services in rural areas as opposed to urban areas combined with less opportunity for employment and services presently existing in these areas and the likelihood of less comparative economic activity in rural areas in the future.

The recommendation that the committee be bipartisan is made because there is often greater political pressure brought to bear on State and local representatives than on Federal representatives.

The recommendation that low-income people serve on this subcommittee is made because these individuals should have a more realistic view of their actual needs as opposed to other individuals serving on the subcommittee with higher income levels.

I would also recommend that precise language be included in regard to the rural/urban distribution of resources contained in the block grants legislation. I believe that the present legislation calls for rural areas to be treated fairly with no further provision to enhance this statement.

Question No. 2 is how should these funds be targeted to reach people most in need?

In addition to low-income individuals serving on the proposed subcommittees, to express their most vital needs, I would also recommend that some of the present guidelines for dealing with income eligibility be reviewed as there are presently some programs which can include persons for eligibility who possess an income equaling 125 percent of the poverty level and these guidelines may have to be reverted back to the actual Federal poverty level in order to serve the most needy individuals.

Maximum administrative costs allowable for State and local providers of social service block grants should be established to insure that

the greatest percentage of moneys possible go to the needs of individuals as opposed to administration of funds. I would recommend a 15 percent administrative cost as a maximum figure to be allowed for administrative obligations of funds provided. I would also recommend that a strict interpretation of what constitutes administrative expense be determined.

Question No. 3 is how will program recipients likely be affected by the transition to block grants?

Three separate conferences representing 700 rural predominately low income persons with the majority representing individuals 55 and over were conducted with the aid of Mr. Harold Cox of Indiana State University, during the past year in preparation for the 1981 White House Conference on Aging to be held in December 1981. Individuals were given questionnaires dealing with various social categories in order to determine concerns and needs which they may or may not have.

I have included the results of these surveys as a supplement to this report for your review.

The most urgent concerns were adequate health care including long term care. Transportation, as 31.6 percent of 578 people responding indicated transportation was frequently not available. The cost of energy for heating homes revealed that 16.8 percent of 578 individuals questioned did have to choose between eating and keeping warm last winter. When asked if they had problems in paying their heating bills 31.9 percent of 578 people indicated that they did while 30 percent of 105 individuals indicated they had problems paying their heating bills.

Another concern was that home delivered services should be expanded to prolong independent living. Adequate housing was also a concern with 34.3 percent of 578 individuals questioned indicating that their home was not adequately insulated. Additional concerns were expressed regarding employment, as not having enough employment opportunities and also the availability of nutritious meals was a concern.

With these concerns being expressed prior to many budget reductions existing in the proposed block grants in social services there will obviously be an adverse effect on many rural residents as these persons felt an obvious need for expansion of many of these services rather than a reduction.

Question No. 4 is how long of a transition period is necessary to phase in block grants with the least amount of disruption?

In order to effectively establish the committees as recommended and to receive and rank the major needs of various areas I feel a minimum of at least 6 months would be necessary to effectively initiate projected block grants.

I feel that future programs considered for block grants should first be assessed by independent survey agencies to see if the present categorical approach is cost efficient and effective before placing categorical programs into block grants.

Representative HAMILTON. Thank you very much, gentlemen. I am familiar of course with each one of you and your work, and I respect what you are trying to do in the delivery of services and giving more input to our local governments. So we are grateful that you have testified this morning, or this afternoon, and you have certainly contributed to the work of the panel.

Mr. Ferguson, I get the impression with your statement that your group feels kind of left out of the action here. Is that right?

Mr. FERGUSON. Well, we have had some concern. The Indiana National Association of Counties, I know, was involved in the development of the legislation in Congress. So from that standpoint, insofar as we are represented on the National Association of Counties, we have had input through that source.

As far as the State's implementation of the block grant program is concerned, originally we were led to believe that local government officials would not be represented at all on the task forces. We did voice our objections to that stance by the administration; and, I don't know whether or not it was a consequence of those discussions, but in any event local government, including counties, is now going to be represented on the task forces.

The problem is that only one county official will be on each task force. And I know, because of size limitations, that's a problem. But it's hard for me to believe that one county official, no matter how well spoken that person may be, can possibly represent all 92 counties, as diverse as they are in Indiana.

Representative HAMILTON. I am impressed by your testimony. You have really given very careful thought to the nature of the block grants. Do you think your role would be enhanced if the State legislative voice were raised, elevated in the consideration of block grant matters?

Mr. FERGUSON. I believe that it's inevitable that the legislature must take a concern in the administration of the block grants, especially with regard to resource allocation.

Representative HAMILTON. And that would be favored by the Association of Indiana Counties?

Mr. FERGUSON. Yes; it would be, although we would still maintain our position that politics, as much as can be expected, be kept out of those decisions.

Representative HAMILTON. You don't want these politicians messing around with you. Is that it? Is that right?

Mr. Stephenson, I believe I am correct in saying that under the present legislation there is a requirement that 90 percent of the funds provided under the community services block grants go to the community action agencies in the first year—but after that, that 90 percent is to go to local governments. And whether or not those community action agencies continue, will depend on the actions of the local government. Is that your impression now? Have you looked into that aspect at all?

Mr. STEPHENSON. I think the legislation speaks to the issue that the Governor has "either-or" to continue to fund community action agencies or go to the local units of government. I think that is, of course, one of the major things that concerns us basically from the standpoint, Mr. Congressman, that the local units of government have not been in the business of dealing with the needs of their low-income people. The State of Indiana, by the same token, has not been in the business of dealing with the needs of self-sufficiency and human service needs. As a result of that, that of course, is a major concern of community action agencies, who have been traditionally the "agency" that has dealt with the needs of the low-income and the poor and the near poor in this country.

Representative HAMILTON. I take it your general view of this block grant approach and the statutes that have been enacted so far is that you feel it will lead to a reduction of services to the most needy in our community.

Mr. STEPHENSON. I think it's evident that the priority that has been placed through the legislature and the administrative govern nt in the State of Indiana, and our local units of government, the needs of the poor has been a low priority. The block grant concept is nothing new, as I stated in my testimony. And as a result of that, we can look at revenue sharing in our local communities and very few of those dollars have gone for the needs of low-income people.

Representative HAMILTON. Well, let me say to you what I said to Mr. Jones, and that is, that I just don't think it's likely that the Congress is going to be changing, in the next few years, our actions with regard to the particular block grant programs that are before us and that are on the statute books. And that means, from your vantage point, that if you are going to get targeting of these funds toward the most vulnerable people in our society, that you are going to have to do that through the State legislature or through the task forces that are now being formed. I strongly commend you for your interest in those groups. I share your concerns at that point about these block grant proposals. It's one of the real risks, I think, in the block grant proposals; and, I commend you for your statement here.

May I also say to you, Mr. Ferguson, that I hope that as you have an opportunity for input into these programs—and I am pleased that you are going to have that—that you keep in mind some of the concerns of the most vulnerable people in the society.

Mr. Goen, I was especially interested in your recitation on the poll—I would call it a poll—the survey that you cited, and the difficulties that some of our people in the rural areas are facing. I might say to you that in earlier testimony of the subcommittee we have heard from persons who have particular concerns with rural areas, and their concern is about the lack of resources flowing to these people in the rural areas.

Of course as you know very well, I represent a congressional district that is predominantly rural. I would think one of the things your group could do would be to try to voice that concern as effectively as you can through these task forces, as well as through the State legislature. I am sure you agree with that. That was one of your recommendations, I noticed.

Mr. GOEN. We will certainly make these studies available.

Representative HAMILTON. Well, gentlemen, I would welcome any other general advice for me that you think might be helpful.

You have given us a good conclusion to our hearing this morning. We are deeply grateful to you for your testimony and your prepared statements. It will be my intention to have the staff analyze what you have said and what the other witnesses have said pretty carefully, because my basic concern is to try to improve these block grant proposals so that the services are delivered more effectively and so that they are efficient and the taxpayer gets his money's worth.

Thank you, very much for coming.

The subcommittee stands adjourned.

[Whereupon, at 12:12 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

STAFF
Rev. Harold B. Statler
Executive Director
Rev. Walter F. Horlander
Associate Executive Director
Rev. Gerald L. Wilson, Director
Church World Service-CROP
Rev. Erwin R. Bode, Director
Campus Ministries

Migrant Ministry and Literacy Education
Rev. David K. Felton, Director
Institutional Ministries

1100 WEST 42nd STREET, ROOM 225
INDIANAPOLIS, INDIANA 46208
PHONE (317) 923-3674

The Indiana
Council of Churches

September 28, 1981

Congressman Lee H. Hamilton
Joint Economic Committee
United States Senate,
Washington, D.C. 20510

Dear Congressman Hamilton:

I am belatedly responding to your September 2, 1981 letter, inviting a written statement from the Department of Legislation and Civic Affairs of the Indiana Council of Churches. Obligations have kept me from responding by your September 23rd deadline. I am responding with the designated Department's approval.

My comments will not be technical; we are not in a position to assess the actual impact of changes, either in terms of bureaucracy or those in need.

Insofar as Indiana is concerned, the following general observations are made:

1) When the Title XX funds became a block grant, it joined two other block grants which did not require state matching funds. With the restrictive legislation adopted in its 1981 session, the General Assembly requires a federal mandate in order to release the budgeted state match of $19,000,000. Some voices in the power structure are stating that the authorization bill will not be amended, and may be diverted to other areas.

   With a $25,000,000 cut (approximately) in those funds, plus the state match, many people will be needlessly excluded from the "safety net."

2) The questions you raise in your letter are the questions the Administration and Congress should have settled to a major degree prior to enactment of the legislation. It appears government is in the best position to determine impact. There is a lot of uncertainty as to what is coming to the State. Under pressure, the States are feverishly attempting to get the programs put in order.

3) The planning by the Administration does not appear to date to reflect a perception of needed services. It looks more like a "hatchet job" to cut back expenditures while implementing an economic theory.

OFFICERS: Rev. F. Waldo Savage, *President*; Mrs. Robert W. Fribley, *Vice President*; Mrs. Eugene Williams III, *Vice President*; Louis Hartley, *Vice President*; Dr. Edwin L. Becker, *Secretary*; Rev. John E. McKune, *Treasurer*; Dr. Otto K. Behrens, *Past President*.
DIVISION CHAIRPERSONS: David F. Reed, *Administration*; Rev. Charles I. Johnson, *Educational Ministries*; Rev. Carroll K. Cargle, *Christian Life and Work*; Mrs. Robert E. Green, *Faith and Order*; Mr. Jesse Babb, *Mission and Service*.

It also appears to reflect a foreign policy built on military neuclear overkill that insures no security. What if the PBS World series, "The Red Army" is correct while we cause people to suffer. Why all the kicking at "welfare cheats" with no checks on the "corporate waste" in defense contracts and department operations? Do we let hurting people suffer while a giant grows further out of control?

4) All this is to say that children will be denied nutritious lunches at schools, food stamps are reportedly being cut off for AFDC recipients; and the second round of budget cuts will just lower the standards by which we define the poor and needy.

5) A positive note, categorial grants are in need of review. The red tape has been confusing and some of it wasteful. These direct target grants were created because states would not meet the needs of their citizens. We have ended up fragmenting people. The block grant concept, if properly administered, holds potential for integrating services and reducing the practice of shuttling people. People may begin to be seen in a more "wholistic" fashion.

6) A potential difficulty that bears watching is the matter of services reaching people. Will some larger interests be able to crowd out smaller service areas? Will the temptation to build facilities keep people from getting the necessary assistance? Has the federal legislation cut loose the guidelines necessary to assure delivery of services?

We find it an uncertain picture as to what the Indiana chief executive intends to do. There is uncertainty in his statement that "Presidnet Reagan proposed the block grant program with the intent of helping states deal with federal cutbacks." In fact, one has a strong feeling that President Reagan is reshaping the U. S. governement to eliminate responsibility for the "general welfare".

There will be much confusion. Persons are going to be awkardly and abruptly brought face to face with major reduced support resources as inflation continues. The task now is to keep a finger on persons, their needs, and how they adapt to the pressures caused by reduced or eliminated public assistance.

It is further a fallacy for the Administration to call the churches to make up for the deficit by increased social service efforts. We are first told to invest and save to build up the economy. Now government gives the signal that contributions to churches and social agencies should increase. Then the "wealthy" are discouraged large contributions by tax laws. What can be expected by mixed signals of such a nature?

My testimony may have strayed from your request. I trust it conveys a series of concerns that can be dealt with. Things like denying work incentives to

Congressman Lee H. Hamilton
September 28, 1981
Page three

AFDC recipients seem to be cruel, demoralizing and counter-productive if we want to move people out of the dependency syndrome. Does the federal government want to encourage the development of people, making bridges possible?

Sincerely,

Harold B. Statler
Executive Director

HBS:at

CITY OF EVANSVILLE
CIVIC CENTER · P O BOX 3938
EVANSVILLE, INDIANA 47737
(812) 426-5000

OFFICE OF THE MAYOR
MICHAEL D. VANDEVEER

September 18, 1981

The Honorable Lee H. Hamilton
c/o Joint Economic Committee
United States Senate
Washington, D.C. 20510

Dear Mr. Hamilton:

As the Mayor of Evansville, I am in favor of the flexibility of program design and administration of block grant programs in general. The CETA and CDBG programs, which Evansville has administered for a number of years, have allowed those of us at the local level to target these programs to the areas of most need in our community.

I am quite concerned about the possibility that many existing and any future block grant programs would be administered through the State of Indiana. If the administration of Title XX programs in recent years is any indicator, the effectiveness of such programs could be seriously jeopardized. I am not necessarily finding fault with Governor Robert Orr's present administration of such programs, but, with the ongoing philosophy of Indiana State government toward urban oriented programs.

In summary, I am wholeheartedly in favor of the concept of block grants, but I feel that at least for the larger cities, the funds should be made available directly to the locality from the Federal government instead of funneled through the State.

Sincerely,

Michael D. Vandeveer

Michael D. Vandeveer
Mayor of Evansville

MDV/da

September 18, 1981

Representative Lee Hamilton
Joint Economic Committee
United States Senate
Washington, D. C. 20510

Dear Lee,

In response to your letter dated August 27, 1981 regarding requested views relating to "Block Grants", I have thought about this subject for some time.

I have no experience with block grants, however I have decided to forward what comments I have on the attached page. I hope they will be helpful to you in your dealings with block grants.

I am somewhat concerned about the control of federal funds being turned over to states as I believe that the reason the federal government became involved in providing social services in the first place was because the states were not meeting the needs of the people. What insurance is there now that they will pick up this unwanted burden and carry it out in a fashion that will benefit those truly in need?

I firmly believe in government at the local level if it is indeed carried out in a manner that meets the needs of those truly in need as well as others.

Very cordially yours,

Darlene Newkirk

Mrs. Darlene Newkirk
851 East Seventh Street
Brookville, IN 47012

Attachment

COMMENTS - BLOCK GRANTS

1. Insure that people in rural, not highly populated areas receive needed services just as those people in metropolitan areas do, and take into consideration the fact that it costs more to deliver services in the rural areas than it does where many people live closer together. This does not negate the fact that rural people have needs which sometimes are greater than those persons living in metropolitan areas. Rural areas usually have higher unemployment, less if any available community services such as United Appeal services, Red Cross, etc.

2. Insist that the funds be administered by qualified, experienced, competent people, both at the state and local levels.

   I have personally seen a lot of money wasted due to the incompetence of persons who sit on boards organized to control the expenditure of federal funds for various programs. You cannot take a man off the street, and just because he wants to help somebody or be involved, expect him to be able to run a business so to speak. This is exactly what has happened within many volunteer, not-for-profit organizations who run federally funded projects throughout this country. We need qualified people who have experience in planning, organization, fund raising, accountability, etc. or at the very least the capability of being trained in these areas if they are to continue to spend federal funds to operate their projects. This is not the case today, especially at the local levels and in some cases at the state level.

3. Eliminate the "spend, spend, spend" attitudes which currently exist in government funded programs.

   The attitudes now are that if you have a federally funded project and you do not, for whatever reason, spend all the money you are awarded for a given period of time, it is very likely that your allocation for the next period will be cut (the thinking being that if you did not spend your total allocation this year, you didn't need it). That is not necessarily true as sometime unexpected things happen which are beyond your control that either result in your needing less or possibly more money. You never can know for sure what is going to happen. As a result of this erroneous thinking, projects find ways to spend potential remaining funds whether they need to or not so that their allocation for the next year will not be cut.

   I believe that projects should be encouraged to conserve funds however possible and rewarded in some way, certainly not penalized, for saving money as opposed to the current trend. If a project finds a way to save money one year, it does not mean that it will need less money the next year. We should instead operate our programs in a manner similar to private business. I don't think any of them spend money just to be spending it. Many federally funded projects do.

4. There is a big need to cut paperwork so that we will need less staff and that these staff persons can concentrate more on delivering services and less on doing monumental paperwork.

4A. Require centralized and computerized bookeeping and reporting systems at least at the area levels. This would cut personnel expenses by cutting the time of staff required to do paperwork.

5. Program recipients should be required to take a means test. Services should be made available to everyone who needs them, however there should be fees charged based on a sliding scale of income. Some people who receive free services could well afford to pay for them. Sliding scale should take into consideration number of persons in household, high medical bills, etc. As a taxpayer I don't think the United States of America can afford to continue to give away services to those persons who should be paying for them.

Indiana Catholic Conference
Suite 315 Windridge Office Bldg.
5435 Emerson Way North
Indianapolis, IN 46226
317/545-3306

September 22, 1981

Representative Lee H. Hamilton
Joint Economic Committee
United States Senate
Washington, DC 20510

M. Desmond Ryan, Ph.D.
Executive Director

Most Rev. Edward T. O'Meara, S.T.D., D.D.
General Chairman

Most Rev. Raymond J. Gallagher, D.D.
Executive Chairman

Board of Directors

Archdiocese of Indianapolis
Most Rev. Edward T. O'Meara, S.T.D., D.D.
Mrs. Mary Kaye Tolen

Diocese of Evansville
Most Rev. Francis R. Shea, D.D.
James A. Phister

Diocese of Fort Wayne-South Bend
Most Rev. William E. McManus, D.D.
Most Rev. Joseph R. Crowley, D.D.
Thomas F. Broden, LL.D.

Diocese of Gary
Most Rev. Andrew G. Grutka, D.D.
David W. Weigle

Diocese of Lafayette-in-Indiana
Most Rev. Raymond J. Gallagher, D.D.
William Whalen

Dear Representative Hamilton:

Thank you for the invitation to express the views of the Indiana Catholic Conference on the Federal block grant approach to funding of human, health and social services.

The Roman Catholic community approaches discussion of this social revolution from a series of basic premises:

--the dignity of the human person

--the right to life and an adequate standard of living for all persons

--human rights are rights held in community

--government must promote the common good by protecting human rights and promoting human dignity

Roman Catholic social thought has always been biased in favor of the poor. Current economic conditions make it imperative that all Christians and persons of other persuasions, work together to assure that the poor and dependent have their human needs met before the desires and wants of others are met.

Any person who internalizes these premises must view with some concern the present effort to reduce public funding of human and social services while eliminating state matching during this period of recession and inflation.

This approach tied with efforts to significantly increase defense spending troubles those of us committed to principles that focus attention on human dignity and human rights.

The Indiana Catholic Conference favors any governmental efforts to eliminate waste and duplication of programs by public agencies. But, we are also concerned about the over emphasis on efficiency in the welfare area without equal emphasis on efficiency in defense spending.

The data we are collecting suggests that the "safety net" designed to protect the basic needs of the poor is inadequate. A recent report submitted to us by the United States Catholic Conference suggests:

--In the seven programs that constitute the "safety net" 80% of the dollars go to persons above poverty line and half of the dollars go to persons above twice the poverty line.

--The majority of poor people receive no benefits at all or at the most receive free school meals.

A study conducted by the Urban Institute also suggests:

--Social welfare, education, health and income assistance, accounts for 26% of the 1980 Federal Budget but 46% of the 1982 budget cuts.

--From 1981 to 1984 these categories would absorb a loss of $128 billion.

These findings and others lead us to believe the present social philosophy dominating Federal legislative action will result in serious harm to the well being of low income Americans. It could also lead to unnecessary and dangerous division between the rich and the poor.

We believe the real test of block grants should be their effect on those most in need. If the Government can demonstrate that consolidation will result in improved, more coordinated and more comprehensive services for the poor, then we would find this approach acceptable. But, we are concerned that the present approach will fail this test unless:

--The Federal Government retains programs that have national objectives.

--Programs which are decentralized would include provisions insuring that objectives will be met.

--Block grant funds are targeted to those most in need.

--Block grants are distributed to jurisdictions after demonstration of capacity to carry out the program in effective manner.

--Block grant programs include provisions for thorough planning, review and evaluation by city, county and state officials.

--Procedures are clear for citizens to participate in planning and for citizens to appeal illegal or arbitrary action by Government agencies.

--In order to assure a state's commitment to human services for its citizens, matching requirements by state and local governments must continue.

--Private and corporate interests must be encouraged to commit funds to human services.

89-253 O - 82 - 6

Thank you for this opportunity to express our views and concerns about block grants. We will be following closely the deliberations of your committee. We look to you and your committee members for new insights on how the Federal Government might assure the poor that their basic needs will be met during a period of economic turmoil.

Sincerely,

M. Desmond Ryan

M. Desmond Ryan
Executive Director

LEGAL SERVICES ORGANIZATION OF INDIANA, INC.

117 EAST MARKET STREET NEW ALBANY, INDIANA 47150

(812) 945-4123

September 18, 1981

Congressman Lee H. Hamilton
Chairman
Joint Economic Committee
United States Senate
Washington D. C. 20510

Dear Mr. Hamilton:

I was pleased to receive your letter of August 31, 1981, inviting me to submit my views on block grants and their administration in the State of Indiana. I am attaching a five-page statement which accurately reflects my understanding and beliefs on this important topic. I hope my views will be beneficial to your committee, and am pleased that they will become a part of the official congressional transcript.

As always, your concern for and support of the provision of legal services to low-income persons is appreciated and encouraging.

Sincerely yours,

J. Mark Robinson
Attorney-at-Law

JMR/mkm

Enclosures: August 31, 1981 letter from Congressman Hamilton
Statement to the Joint Economic Committee

Statement to the Joint Economic Committee,
United States Senate

Submitted by

J. Mark Robinson
Attorney-at-Law

I sincerely hope that block grants will be a successful tool for distributing funds to human service programs in the U.S. and in our state of Indiana. However, I wonder if block grants will have a decent chance of success since they are being used as vehicles to cut funding for current categorical programs. It seems that in order to truly test such a funding conversion, the level of federal financial support, at least, should be maintained at the current levels.

In our state, I have not seen the majority of providers of human services and their low-income clients separate the block grant concept from the budget cuts and thus, they have not been supportive of the change. Since the block grants will mean a $25 million funding cut for the provision of human services in Indiana, many are interpreting the block grants solely to mean fewer services to reduced numbers of poor persons. If block grants were not associated with the budget cuts, I do believe many of those who now are pessimistic about their success would be supportive of the change, if the state assumes its administrative role in an appropriate and expeditious manner.

This last phrase, which speaks to the state's administrative role, is an important one and one in which I have upmost concern. I see considerable value in block grants in that they will provide an opportunity for states to plan for the provision of human services, something that most have never done. As the Office of Management and Budget points out in the April 1981 Budget Revisions paper, block grants should allow states to plan a more comprehensive system of services, eliminating duplication and fragmentation, if such exist.

To provide an orderly, comprehensive system of human services, however, states cannot continue to simply fund the programs which are receiving funds currently. Ideally, states should get involved in a wide range of planning activities which involve examining the services presently being funded; measuring the quality and quantity of such services; obtaining data on county unmet needs, distinguishing between rural and urban needs; targeting programs according to the greatest need; monitoring funded programs; and restructuring state agencies to streamline the processing of the grants and the delivery of services.

The planning process is particularly important since block grants will bring reduced funding. Because monies will be short, states will not be able to tolerate, as some have in the past under the Title XX and CETA block grants, the delivery of services to the near poor and the

lower middle class. States will have to target their poorest populations through the planning process to assure that services are delivered to the "truly needy", as President Reagan so accurately labeled our nation's chronically poor.

It is clear in our state, which lacks revenue due to high unemployment, planning will not be a high priority. The State Planning Services Agency, which has been assigned the planning function in regard to the block grants, was trimmed to a subsistence level last legislative session, surviving with a token appropriation of $100,000 and currently funding three professional positions (Director, accountant, and planner). Additionally, Indiana's Governor Orr has said that no extra staff will be necessary because the state has been accepting federal monies all along. Obviously, the Governor believes that the state's role will not be altered significantly under the block grants and simply will continue to funnel monies to current programs. Such an attitude is worrisome to me because I believe that the state should be taking a pro-active role, acknowledging that block grants are presenting the state with a new opportunity to initiate and carry through with innovative human service planning. In addition, it is wasteful to simply "pass through" block grant money to programs presently receiving categorical funds without evaluating the effectiveness of the agencies or establishing whether the services of the recipient of these services represent a priority interest.

I realize that such planning cannot take place overnight. I was encouraged when I read in the House Congressional Record (July 29, 1981) that you have allowed states until October 1982 to accept the block grants, thereby permitting states to prepare for the necessary administrative changes. Since that time, I have learned that three block grants must begin immediately. This is not sufficient time. I hope that you, as Congressional members, will review the states' readiness for this funding shift and consider extending this deadline if necessary.

Although I firmly believe an active state role is essential to the success of the block grants, I also feel strongly that Congress should limit the amount of federal dollars which can be spent on state administration thereby providing maximum dollars for direct services. I recommend that the provision within the Preventive Health and Health Services Block Grant, which limits administrative cost to 10 percent of the state's allotment, be included in all of the block grants to assure that block grant funding will be spent on those most in need.

Another provision in the aforementioned block grant, which I feel should be added to the requirements of the other grants, is one which says that the block grant funds will supplement, and not supplant, state and local funds. Such a restriction especially is important for states in financial duress (such as Indiana) that might be tempted

to use the block grants to support functions formerly funded with state and local dollars.

My final concern is one which I cannot fail to mention because it often dominates all others. Although I do believe that states should be capable of administering most of the current categorical programs, there exist some programs which should remain federally processed because they are politically volative and, therefore, have a low probability of ever being supported in some states. One such program is family planning, which consistently has been opposed by a vocal minority, particularly in the Mid-West. This program is a truly necessary program that may fall by the wayside in many states if it is ever put into a block grant. Legal services is another program which states probably will not choose to fund if ever in a block grant because it is legal services programs, over the years, which have kept states honest in their administration of their own laws. Medicaid, and Aide to Families with Dependent Children (AFDC) are other programs which should remain a major responsibility of the federal government.

I am most grateful for the opportunity you have afforded me to present my views in the form of this written statement. I know that your Committee's tasks are great. I hope that my comments have been helpful to you.

Home of
Persimmon Festival

CITY OF MITCHELL

JERRY L. HANCOCK, MAYOR
P.O. BOX 2 — PHONE 849-2151
MITCHELL, INDIANA 47446

Home of
Spring Mill State Park

September 17, 1981

Honorable Lee H. Hamilton
House of Representatives
2470 Rayburn Building
Washington, D.C. 20515

Dear Congressman Hamilton:

In response to your letter of August 31, asking for comments on the proposed method of Block Grants, I am very much opposed to it. Governor Orr has already made it clear that he will handle all block grants, which means that it will become a "Political Football," as have the other Federal programs which he is handling.

The small cities will be left out, and particularly the small Democrat cities. We were turned down on an application for YCCIP (CETA) funds before it has even been learned how much funding there will be available. This application more than met the goals of the program, in that we had funds available to furnish materials, and volunteer supervision to train the youth who would be employed for the program.

In our opinion, the CETA program as originally set up was far better than many of the new programs being approved. Governmental units were able to employ and train participants, many projects could be accomplished which could not have been without the labor furnished under CETA.

The Block Grant program administered through HUD seemed a good program, in that each city had an opportunity to receive funds, and it was not handled politically, nor kept in almost entirety in Indianapolis and the big cities.

Sincerely,

Jerry L. Hancock

jlh:me

Jerry L. Hancock, Mayor
City of Mitchell

89-253 202

MOVE TO MITCHELL . . . A PROGRESSIVE CITY

Monroe County Community School Corporation

Administration Center
Dr. Ronald E. Walton, Superintendent
315 North Drive
Bloomington, Indiana 47401

September 16, 1981

Congressman Lee H. Hamilton
2470 Rayburn Building
Washington, D.C. 20515

Dear Lee:

I am writing in response to your letter of August 28, 1981, and your invitation to summarize my views on block grants. As you might guess, my remarks are all directed toward the impact of block grants on public schools.

My first concern is that somehow we separate federally mandated programs from the block grant approach. If this does not happen, local public school officials would be left with no choice but to channel federal funds into programs such as special education, vocational education, etc.

Based on our experience, we also believe that it would be preferable to exempt Title I, ESEA, from block grants. During the past several years the Title I program has emphasized the importance of improving basic skills of disadvantaged children. It is one of the few federally funded programs that is available to provide extra assistance to children who have severe reading problems. In the Monroe County Community School Corporation, the Title I program has been a positive force in the lives of these children. My fear is that inclusion of Title I in the block grant program will lead to its ultimate demise.

The feelings which are expressed in this letter are based on the assumption that the state government would have a great deal to say about the allocation of block grant monies. The pressures which are generated by various lobbying groups at the state level would most assuredly lead to a reallocation of funding priorities.

Thank you for allowing me to share my concerns on this important subject.

Most sincerely,

Ronald E. Walton
Superintendent of Schools

REW:jt

MUNICIPAL BLDG.
200 HARNED AVE.

TELEPHONE 254-8578

LEO J. SULLIVAN
MAYOR

City of Washington, Indiana

September 16, 1981

Lee H. Hamilton
9th District Congressman
2470 Rayburn Building
Washington, D.C. 20515

Dear Congressman Hamilton:

This correspondence is forwarded in response to your request for local input respective to Statewide Block Grant Program as per your letter of August 31, 1981.

Although local jurisdictions such as the City of Washington, Indiana, and their elected/appointed officials, are still uncertain as to the impact of changes in federal programs and their funding methods, there is one program which I would rather see remain unchanged in administrative procedure for the community of Washington.

This program is the Community Development Block Grant program (CDBG) formerly administered and funded via the Community Development Act of 1974, as amended.

Over the past few years, the CDBG program has greatly improved both the living standard and tax base of the City of Washington by its emphasis upon improving the overall quality of owner-occupied housing of the low-to-moderate income families of the City of Washington. Furthermore, supportive capital improvement funding under the CDBG program has greatly assisted in relieving local property owners of increased property taxes to finance such supportive capital improvements (e.g. streets, sidewalks, drainage,etc.).

Those funds directed toward community development under the new Statewide Block Grant Program should continue to emphasize the following directions and characteristics:

1. An equitable portion of such Block Grants should be directed toward non-urbanized areas (i.e. small cities and incorporated towns).

2. The emphasis of community development should remain with improving the housing stock of low to moderate income families through housing rehabilitation activities.

3. The program, and equitable funding for small cities, should remain competitive, with annual funding apportionments being directed toward those cities and towns which possess a combination of need (low-moderate income families) and demonstrated ability to maximize benefit from funding awarded.

The community development block grant program should continue to be supported for such cities and towns under the new concept of state block grant funding.

Thank you for your solicitation of input into this new process; please contact me if I can be of further assistance in seeing that such funds are properly distributed for the benefit of all taxpayers.

Sincerely,

Leo J. Sullivan
Mayor
City of Washington

LJS/jg

Jennings County Schools . 34 MAIN STREET . NORTH VERNON, INDIANA 47265 . (812)346-4483
CARL A. WILDEY, Ed. D., SUPERINTENDENT JEFFREY L. HEIER, Ed.D., ASSISTANT SUPERINTENDENT

September 14, 1981

Joint Economics Committee
United States Senate
Washington, D.C. 20510
Attention: Vanda McMurtry

Dear Chairman Hamilton:

In response to your invitation to comment on "Block Grants" and their anticipated effects on our citizens, I offer the following as it relates to education from a local view point.

Adapting to the block grant approach for educators will no doubt be a tramatic and frustrating experience. Most school corporations are relatively small throughout the State of Indiana. These smaller school corporations do not have the manpower to battle the few larger corporations that have full time personnel for the purpose of obtaining much of the monies in block grants. Thus the intended benefits reach only those citizens in larger communities. The rural taxpayer and their children receive little or no benefit fron the intended programs. The local resources to obtain block grant funds are stretched so thin or non-existent that if some form of guaranteed protection is not built into the block grants there will be little or no benefits to the citizens of the rural areas.

It has been my experience, as well as other educators throughout the State, that a tremendous emphasis has been and will continue to be placed on the inter-city disadvantaged. Let me point out that the rural disadvantaged have just as many problems with fewer services available to assist them. As an example, Title IV-B funds over the past three years have been reduced over 70% in our school district. Enrollment has remained stable. The funds, I believe, were redirected to large urban districts.

Another concern is allowing complete descretion of each local educational agency on how funds are to be used. Some form of checks and balances must be in place because someone somewhere will take advantage of the system. When this happens children are the victims. There must be safeguards.

The transition to block grants should be as short as possible though disruptions will happen there is no reason to prolong the anxiety and agony that educators will have.

The most important issue from my standpoint, as an educator, is that each and every child receive the intended benefits and opportunity that has been granted to them by the Constitution of the United States.

Mr. Chairman, there future opportunities ride with your decisions, I thank you for this opportunity and if I can be of further assistance please contact me.

Sincerely,

Jeffrey L. Heier
Assistant Superintendent

JLH/eg

city of beech grove

beech grove, indiana 46107 * (317) 787-6577 elton h. geshwiler, mayor

September 15, 1981

The Honorable Lee H. Hamilton
M.C. 9th District - Indiana
2470 Rayburn Building
Washington, D.C. 20515

Dear Lee:

Thank you for the invitation to make comments regarding my reaction to the new "federalism" philosophy in the Block Grant program.

While I believe that local government has the capacity of interpreting the needs of the intended recipients of federal assistance and can administer the block grant programs successfully, I would offer the following cautions:

There should be disciplines established to guide state governments in establishing criteria for awarding grants. I am concerned for the fairness or equity of the awards procedure.

If state government is only a conduit for the financial assitance of the federal government to the local communites, I have difficulty in understanding the state's role of discretionary judgement regarding the allocation of awards to local units of government.

I'd suggest that careful consideration be used in the Block Grant program to use the basic approach of the Federal Revenue Sharing program. I believe this program has been very successful and could be used in any relationship between federal and local governments.

I believe the foregoing answers the more important questions raised in your letter of August 31, 1981. I feel the current recipients and program providers will be seriously and adversely affected by delays in the implementation of Block Grant programs administered by the states.

In summary, I do not approve of the new approach and I believe the average, intended reipients in Indiana will not benefit from it.

Sincerely,

Elton H. Geshwiler, Mayor
City of Beech Grove

/mm

Phone (812) 547-3435

Lincoln Hills Development Corp.

P. O. BOX 87 302 MAIN ST.

Tell City, Indiana 47586-0087

September 11, 1981

Honorable Lee Hamilton, Chairman
Joint Economic Committee's Sub
Committee on Economic Goals
United States Senate
Washington, D.C. 20510

Dear Representative Hamilton:

Thank you for the opportunity to comment on the block grant approach to federalism.

While philosophically I agree with fewer strings attached to federal money, less regulation, less bureaucracy, and a transfer of power back to the local levels, I have some grave concerns if the block grant approach will meet the needs of the local citizens.

1. The experiences of the block grant programs of CETA, HUD Community Development and Revenue Sharing have not always been positive in meeting the needs of the people, particularly the low income and underprivileged.

2. While the federal administrative structure may be reduced, the block grants will undoubtedly create a new administrative structure at the state level.

3. Will the monitoring of federal tax dollars be any less important under the block grant approach vs. the categorical program? How much abuse will occur? How is it to be controlled?

4. Indiana, and we may be unique in this respect, is unable to advance cash to local grantees, such as our agency, as the state operates on a reimbursement basis. This will cause a significant cash flow problem for local agencies.

5. I cannot endorse fully the concept of "closeness to the people" allowing the best determination of needs and programs to meet those needs.

In summary, I'm not sure I have answered any questions or offered any assistance, and I suppose that creates my number one concern, that is, the quickness of a major restructuring of social programs from categorical to block grant without a thorough analysis of the impact. Why does it have to be done this year or next year? Why can't reductions be made in the categorical programs (including defense) and the system of block grants be studied and implemented (if feasible) in a more rational and planned fashion.

I appreciate the Joint Economic Committee's analysis and review of this matter and particularly your work to insure the citizens of Indiana receive the most effective and efficient utilization of their tax dollars.

Thanks for your consideration.

Sincerely,

Larry K. Kleeman
Executive Director

LKK:klr

Hoosier Uplands
Economic Development Corporation
521 West Main Street Mitchell, IN 47446
(812) 849-4457

Testimony

by

Peggy A. Eagan
Vice President in charge of Social Services
Hoosier Uplands Economic Development Corporation

On

Social Service Block Grants

To

The Honorable Lee Hamilton, U.S. Congressman
Ninth District, Indiana

September 2, 1981

89-253 O - 82 - 7

Mr. Congressman:

Thank you for this opportunity to offer testimony on the concerns my agency has regarding the proposed Social Service Block Grants.

Hoosier Uplands Economic Development Corporation is a private not-for-profit organization that is designated as a Community Action Agency (CAA), and has served Lawrence, Orange, and Washington counties for sixteen years and, more recently, Martin County.

The agency is a direct result of efforts by a young Congressman named Lee Hamilton. Mr. Hamilton spent a great deal of time and energy trying to convince conservative Southern Indiana citizens that the Economic Opportunity Act of 1964 could truly benefit both the rural and urban communities he served. He did his job well. Community Action Programs sprung up all across the southern part of this state. Almost all still remain. Communities have benefitted.

During the time between 1964 and the present, each new federal administration has attempted to greatly alter, if not dismantle, the concept of community action while other social service programs expanded. Congress took successful programs away from Community Action Programs and failed to make a financial commitment large enough to allow community action a chance to meet its mission - the eradication of poverty, while also easing the symptoms of poverty such as hunger, illness, substandard housing, unemployment, lack of education, etc.

The programs removed from Community Action Agencies soon were recaptured. Unfortunately, most came with little or no administrative costs intact. While allowing a CAA to become multi-funded, this trend

required the use of E.O.A. Section 221 monies for administration, rather than local initiative as was the original intent. We have stretched almost as far as we possibly can and still provide quality services. This agency has had to refuse programs because it could not expand its administrative capacities.

Now, the country's new president has developed a plan called Social Service Block Grants. He wants to turn over a chunk of money to the State, and let them decide how to spend it.

Surely, Mr. Reagan has not been made aware of the fact that every state had the opportunity to expand upon the federal social service programs, but virtually none has chosen to do so. Indiana chose to replace State money with Federal money. If states had a burning desire to provide social services, one would assume that interest would have been apparent before now.

As for local control, local government has a mechanism for representation on every Community Action Agency Board of Directors. However, only two (2) of our four (4) counties choose to have representation, and only one (1) of the representatives is actually a local county commissioner. Other CAA's face the same sense of disinterest. Such interest is not enough to assure the continuation of social services at the local level.

With this proven lack of commitment at the State and local levels and the laissez-faire stance taken by the federal government as supported by the Block Grant plan, who can be held accountable to assure that even the barest minimum of social services are provided in the State of Indiana.

Also, if funds are strictly limited and no special provisions are made, who will be around to actually provide those services. Community Action Agencies are already stretched to their limits. And the designation

of CAA's will cease to exist on October 1 of this year as the Economic Opportunity Act becomes extinct. They will then become just another community based organization. Without the Economic Opportunity Act, community action and all it stands for will no longer exist. People will suffer.

BOARD OF COMMISSIONERS
JEFFERSON COUNTY STATE OF INDIANA
Madison, Indiana 47250

September 2, 1981

The Honorable Lee H. Hamilton, M.C.
Indiana 9th District
Congress of the United States
House of Representatives
2470 Rayburn Building
Washington, D.C., 20515

Dar Sir:

Thanks for your invitation to the hearing entitled BLOCK GRANTS, and for wanting to hear my views.

I am much in favor of Block Grants. Categorical Grants in my opinion, do not fill the needs of people most in need. Different areas of our state has different needs and local governing agencies are more aware and are more in contact with the people they serve than are the Administrators or bureaucrats appointed by the state or federal government. In my opinion, had local Government been able to spend the money to provide jobs and services for County projects, such as bridges, roads, water, sewer and recreation, Jefferson County would not have had a fourteen to fifteen percent unemployment problem. Neither would we have had roads that are impassable in bad weather or bridges that school children have to be unloaded so an empty bus can cross.

As you know, our total County Government budget is roughly one and one half million dollars. Compare this to the cost of the C.E.T.A. program and what was spent to administer it with little if anything accomplished.

When people are unemployed, they do not want or need to be processed by Manpower specialists, program directors, work study specialists, special projects consulants, and the list goes on and on. I have known of cases that have

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been evaluated up to a month and longer. What they needed was a job and to feel they were accomplishing something.

I feel this could be accomplished through local elected officials who know what and where the need is.

Sincerely,

James C. Pendleton

James C. Pendleton,
President,
Jefferson County Commissioners

JCP/sr

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City Of Batesville

132 SOUTH MAIN STREET
BATESVILLE, INDIANA 47006
PHONE 934-2509, AREA CODE 812

September 3, 1981

Hon. Lee H. Hamilton, M.C., Chairman
Joint Economics Committee
United States Senate
Washington, D.C. 20510

Attention: Vanda McMurtry

Dear Lee:

In response to your August 27 letter relative to my views on block grants, I can only give you my opinions based upon the experience I have had as Mayor, beginning January, 1980. Batesville at that time was winding up the final year of the $108,000.00 Community Development Block Grant fund allotment, which started in 1975-76.

The City had qualified for the funds due to the formula established by Congress, which happened to include at least a portion of the years in which our community was involved in Urban Renewal in the Central Business District.

Applications made by the City for block grant funds other than the above, met with no success. Apparently other communities received much higher priorities than Batesville because they had minorities, or they had slums; or they had unemployment or underemployment. Batesville did not have what it takes. This I suppose is what makes Batesville the City that it is.

If we were to qualify for funds I would have to complain about the bureaucratic red tape involved to qualify for funds, along with the seemingly endless reports which are filed in carrying out a funded project. The need to pay a wage scale based upon the Bacon-Davis Act means that communities like ours spend a great many more dollars to accomplish what we need. The fact that they are federal dollars does not diminish the hurt.

The requirement that the projects benefit the poor or the minorities eliminates the possiblility for Batesville and communities like us to participate.

We recognize that the use of federal funding means abiding by the regulations established to spend those funds. It seems to us at times that the communities which are making the special effort to manage their tax dollars and other governmental receipts, are penalized when it comes time to apply for block grants or what have you.

Since you represent a Congressional District which contains a small number of communities with large population, you should be able to observe first hand, whether or not those communities which are rather loose with their day to day management, are the ones who benefit most from the block grant programs.

Thanks for giving me the opportunity to get this off my chest.

Yours,

Bobbie

Roberta J. Benz, Mayor

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Congressman Lee H. Hamilton
Joint Economics Committee
United States Senate
Washington, D. C.

September 2, 1881

Re: Block Grants

Dear Congressman Hamilton:

As County Commissioner of Switzerland County, I am aware of the need of financial assistance for some of our governmental departments.

When the block grants are categorized, I feel that the different agencies from the county should inform the State officials, who will be in charge of the distribution of funding, of their needs and amount of financing they will require to maintain the services now being rendered. I feel that local agencies have better knowledge of their needs in their immediate vicinity, than a representative from the State.

Also, smaller rural areas, such as Switzerland County, should be considered as well as the heavily populated areas. The method of distribution should be administered on a percentage basis as to the numer of persons over 65 years, the income level, and the lack of industry to maintain a tax base for levy to support these programs. State laws are abided by in the smaller rural farming areas as well as the metropolitan areas.

Our health services are in a destitute situation, and may well be curtailed if financial assistance is not received very soon. Also, our county office space is in disreputable condition and very overcrowded. Our county Highway Department was reduced from 29 employees to 11 employees on January 1, 1981, due to lack of funds.

I feel that the most important issueds from being County Commissioner is the health services, county office space, and our highway department. If the block grants can be administered to the counties in block grants, and then allow the county officials decide their top priorities, I feel the administration costs will be greatly reduced by permitting the local authorities make the final decision.

Very truly yours,

James C. Lucas

James C. Lucas, Commissioner
Switzerland County

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SWITZERLAND COUNTY HEALTH DEPARTMENT
VEVAY, INDIANA 47043

September 1, 1981

Congressman Lee Hamilton
Joint Economic Committee
United States Senate
Washington, D.C.

Re: Block Grants

Dear Congressman Hamilton:

Local governments from smaller rural counties cannot support the environmental and nursing services in local health departments without being subsidized from funds other than local tax levy. On the local level, such as County Commissioners and the County Council, we have no problem in obtaining appropriations allowing the services we render, but since the County Health Fund is incorporated into the total county tax rate, the Indiana State Board of Tax Commissioners minimizes the levy to the point of attempting to operate a department without available funding.

State law and local ordinances requires various services, such as, surveillance on potable water, retail food stores and restaurants, communicable diseases, animal bites, sewage disposal systems, and many other problems that effect environmental health. Indiana law states that school children must be completely immunized which is provided by the local health departments to person who request this service at no charge. Hypertension programs require funding for the senior citizens of this State, and particularly to our county as we have a very high percentage of persons over the age of 65 years. Approximately twenty-five percent of our population is on the Hypertension Program.

Funds should be allocated to each local health department for such services that the local Board of Health feel is most needed and justified for their locality. Needs will vary in different locales.

Statistics would show the State Department which of the areas need funding, and not necessarily the large populated areas, but on a percentage basis as to average age, income per capita, and availability of tax revenue.

The transition to block grants should be expedited, so as to have funds available for these services, otherwise, all activities will be forced to discontinue. In my situation, an advance of the monies from the December settlement will be necessary to maintain the health department through calendar year 1981. This will result in zero funds available to operate the department from January through June, 1982, and even beyond that time if sufficient levy is not obtained. The rescission of 314d funds for the reimbursement of our sanitarian's salary has contributed greatly to this financial condition of the local health department.

Vital records are required to be maintained by law. Issuance of burial permits are necessary before human remains are permitted to be interred.

Our full-time health department became effective January 1, 1967, by recommendation of the Idniana State Board of Health in conjunction with the Switzerland County Commissioners and the Switzerland County Council. Since our people have become orientated to receiving these services above-mentioned, we feel it would be a great injustice to not provide health services.

It is important that we receive funding to carry out the needs and services to our people and maintain the healht care for our citizens in the State of Indiana.

Very truly yours,

Betty Lucas

Betty Lucas, Administrative Assistant
Switzerland County Health Department

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CROTHERSVILLE COMMUNITY SCHOOLS

Board of Education
Gordon Breedlove
Berton J. Briner
Gordon K. Butler
David Garrison
Gary McDonald

Superintendent of Schools
Dr. Robert L. Boyd
South Preston Street
Crothersville, Indiana 47229
Phone: (812) 793-2601

September 1, 1981

Honorable Lee H. Hamilton
Joint Economic Committee
United States Senate
Washington, D. C. 20510

Dear Congressman Hamilton:

I am writing in response to your letter of August 27, 1981, relative to my views on block grants. My views are necessarily coached in the context of the impact of a block grant concept on small, rural, basically middle class communities. I must say that such a concept could well be a breath of fresh air as far as a productive relationship between the federal government and the needs of rural school districts are concerned.

I was recently impressed by reading the report, "The R ral Experience with Federal Education Aid" generated by the National Seminar on Rural Education jointly sponsored by the Education Division of the Department of Health, Education, and Welfare and the Science and Education Administration of the Department of Agriculture. What prompted the National Seminar was a concern that rural school children are not being adequately served under the federal education aid programs, in spite of the fact that they constitute between one-fifth and one-third of the total public school population in the U. S. I could relate page after page of current federal programs that don't have application in my district and relate stories of the horrendous paper work we have had to develop to receive the two or three small grants we have received in recent years. Rather, I would just like to suggest that a block grant concept could go a long way toward realizing the eight recommendations of the National Seminar:

1. The "density bias" of federal aid programs should be eliminated.

2. Additional resources should be put into technical assistance efforts.

3. Average grant sizes should be reduced, in order to make the aid available to more schools and to scale the grants to a size where they are attractive to small systems.

4. Small grants should be made available to teachers to carry out individual projects in their own classrooms.

5. Curriculum development to meet unique rural needs should be supported.

6. Greater latitude should be allowed recipients of federal grants, enabling them to pursue their own ideas of what needs to be done.

7. Efforts at the control of paper work should be continued and expanded.

8. State education departments should be more closely monitored for their distribution of federal funds to rural areas.

Thank you for this opportunity and best wishes in your continuing efforts to ably serve the people of the 9th district, Indiana.

Sincerely,

Dr. Robert L. Boyd
Superintendent

RLB:msf

City of Columbus
DEPARTMENT OF COMMUNITY DEVELOPMENT
Columbus, Indiana 47201

September 1, 1981

Congressman Lee H. Hamilton
Chairman, Joint Economic Committee
U. S. Post Office
450 Jackson Street
Columbus, Indiana 47201

Enclosed please find written comments for your consideration regarding the Block Grants Program for Indiana.

As the administrator of a block grant under HUD's Small Cities Program, my comments and concerns are necessarily directed toward that specific program. Several of the comments are relevant tc the broad range of potential block grants to be administered by the State.

As you will note, the comments are posed in the form of items to be considered rather than conclusions to be implemented. My primary concern is that Indiana's small cities and towns (under 50,000) which are currently non-entitlements, be afforded equal access to program funds under the block grant program approach.

Thank you for the opportunity to provide input at this stage. If there are any questions or additional ways for this office to assist you in this process, please do not hesitate to call.

Sincerely,

Tom O. Vujovich
Director

TOV/lh

Enclosures

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COMMENTS TO THE JED SUBCOMMITTTEE ON
ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

September 2, 1981

1. How will state administration of block grant programs relate to the attainment of national priorities?

2. How much discretion will the states have in setting its own priorities even if they are inconsistent with the specific program goals?

3. Will funds be allocated to small cities on a formula basis or will funding be competitive?

4. Will funding be based on cities' level of current distress or structure and potential of proposed programs?

5. Will criteria favor economic development programs at the expense of housing rehabilitation?

6. How will the state monitor program compliance such as environmental review, labor standards, equal opportunity, etc. . .?

7. Will there be a cap on how much funding a city can receive in any year?

8. Who will administer the program at the state level - State Planning Services Agency, Department of Commerce, other?

9. How can cities provide input into the administrative formulation process?
10. Will there be regional or district meetings to discuss criteria, goals, administration, etc. . .?

A primary concern of all small communities, I believe, is that they share equally in attaining program funds. The larger cities are critical of state administration of block grant programs because they feel that the states have been less than generous in allocating them funding in the past. It is true that state legislatures are by and large controlled by rural interests and this has resulted in a skewing of funds away from large urban areas. It is equally true that these larger cities are also considered "entitlements" for many block grant programs and are thereby assured some level of funding. The guarantee of funding at whatever level allows these cities to plan for future programming, and while the level of funding may not meet their needs or expectations, it does allow them something on which to base future program decisions. It also mandates that these cities become creative in financing programs by leveraging where possible. This has long been a tradition, at least in the CDBG area.

Small Cities, however, must compete for funding. Their needs are no less real, no less important, and no easier to solve especially in the absence of available funds. The small cities and towns must rely solely on decision makers at the federal or state level to review their applications favorably and send the funds their way. A problem that exists no matter who the decision maker is, concerns the rating of applications. There is apparently no good way of judging applications strictly by merit. It is impossible, I believe, to completely divorce one's own personal bias or prejudice when evaluating applications for funding.

Columbus was one of the many communities in Indiana whose community development funds will run out this fall. An application submitted to the Area Office in January for an additional three years of funding was denied. In comparing that application to others that were funded, or rated higher, it was difficult to see or comprehend a consistent system of judging. This is not to indicate that Columbus was judged unfairly - it does point out, however, the problems associated with competitive funding.

A potential resolution to this problem would be one which eliminated all bias, prejudice, carelessness, and oversight on the part of reviewers. I would therefore recommend that serious consideration

be given to the creation of an entitlement program for small cities. An entitlement program for small cities and towns (over 10,000) would enable these communities to plan future programming with better clarity. Currently, applications are formulated in the absence of any guaranteed funding, this obviously reduces their ability to plan for long range development in a consistent manner. Only when funding is guaranteed can we begin to seriously address the needs of small cities and towns.

I would encourage the Subcommitttee to investigate this area for future programming. I believe it may very well prove to be the most equitable system for addressing our nation's needs as they relate to the stability of our cities and towns. Obviously, considerable thought and research is required. I have enclosed information that I received from the National Association of Smaller Communities. I hope you find it useful.

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NASCO

NATIONAL ASSOCIATION OF SMALLER COMMUNITIES

City Hall
123 Washington

TESTIMONY
OF THE
NATIONAL ASSOCIATION
OF
SMALLER COMMUNITIES

TO THE

HOUSE SUBCOMMITTEE
ON
HOUSING AND COMMUNITY DEVELOPMENT

APRIL 13, 1981

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NASCO

NATIONAL ASSOCIATION OF SMALLER COMMUNITIES

PRESENTATION TO THE HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT *

BY: JEAN LEVESQUE, PRESIDENT OF NASCO AND MAYOR OF SALEM MASSACHUSETTS, ACCOMPANIED BY GREGORY SENKO AND MICHAEL LONERGAN, BOARD MEMBERS OF NASCO

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, LADIES AND GENTLEMEN:

ON BEHALF OF THE NATIONAL ASSOCIATION OF SMALLER COMMUNITIES (NASCO) I DEEPLY APPRECIATE THE OPPORTUNITY TO ADDRESS THE COMMITTEE ON ISSUES RAISED BY THE ADMINISTRATION BILL ON AUTHORIZATIONS FOR HUD'S COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM INCLUDING THE URBAN DEVELOPMENT ACTION GRANT PROGRAM.

WE ARE MOST CONCERNED ABOUT THE TRANSFER OF THE HUD SMALL CITIES AND URBAN DEVELOPMENT ACTION GRANT PROJECTS TO THE STATES. ALTHOUGH WE CONCUR IN THE ADMINISTRATION'S AIM TO REDUCE ITS ROLE IN LOCAL COMMUNITY AND ECONOMIC DEVELOPMENT AND BOOSTING LOCAL GOVERNMENT INFLUENCE IN THESE ACTIVITIES, TRANSFERRING THESE PROGRAMS IN THE FORM OF BLOCK GRANTS TO STATES WOULD BE COUNTER-PRODUCTIVE FOR SEVERAL REASONS.

FIRST, WITH REGARD TO UDAG, THE PRESENT LEVEL OF FEDERAL SUPPORT OF $675,000,000 HAS BEEN EFFECTIVE BECAUSE IT HAS BEEN A NATIONAL FUND AND THERE HAS BEEN NO STATE SET ASIDES. IF 1982'S FISCAL YEAR LEVEL OF $500,000,000 IS ALLOCATED TO EACH OF THE FIFTY STATES,

* Note that a number of program design features have changed since this was printed.

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NATIONAL ASSOCIATION OF SMALLER COMMUNITIES

THE AMOUNT OF FUNDING AVAILABLE ON A PER STATE BASIS WOULD BE RELATIVELY SMALL. WITH LARGE AND SMALL COMMUNITIES COMPETING VERY FEW PROJECTS OF ANY SIGNIFICANCE COULD BE FUNDED. THE RETAINING OF UDAG FUNDING AT THE NATIONAL LEVEL WITH THE PRESENT 25% SET ASIDE FOR DISTRESSED COMMUNITIES UNDER 50,000 IS THE ONLY FISCALLY EFFECTIVE WAY OF RUNNING WHAT WE PERCEIVE TO BE A MOST WORTHWHILE PROGRAM.

WITH RESPECT TO THE TRANSFERRING OF THE SMALL CITIES PROGRAM TO THE STATE, WE ARE OPPOSED TO THIS COURSE OF ACTION. FIRST, AS WE UNDERSTAND IT, ACCESS TO THESE FUNDS WILL BE AVAILABLE TO BOTH LARGE AND SMALL CITIES. THIS IS GROSSLY UNFAIR SINCE LARGE CITIES OVER 50,000 HAVE DIRECT ENTITLEMENT FROM HUD. SECOND, FIFTY ADMINISTRATIVE UNITS AT THE STATE LEVEL WOULD EITHER HAVE TO BE EXPANDED OR IN MANY CASES CREATED IN ORDER TO HANDLE THE FISCAL MANAGEMENT OF THE BLOCK GRANTS. SUCH ADMINISTRATIVE UNITS ALREADY EXIST AT THE VARIOUS HUD AREA OFFICES. THE AREA OFFICES HAVE PERFORMED QUITE WELL AND QUITE FAIRLY IN ADMINISTERING THE SMALL CITIES PROGRAM INCLUDING THE MAINTENANCE OF OBJECTIVITY AND FAIRNESS IN THE COMPETITIVE PROCESS FOR THE SMALL CITIES FUNDS. WE HAVE STRONG MISGIVINGS THAT THE STATES COULD MATCH THE PERFORMANCE OF HUD. MOREOVER EVEN IF THEY COULD EVENTUALLY MATCH HUD IN PERFORMANCE, THE ADMINISTRATIVE COSTS HAVE TO BE GREATER TO RUN IT AT THE STATE LEVELS.

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NATIONAL ASSOCIATION OF SMALLER COMMUNITIES

AS WE STATED EARLIER WE DO CONCUR IN THE ADMINISTRATION'S GOAL OF REDUCING THE FEDERAL ROLE AND BOOSTING LOCAL GOVERNMENT INFLUENCE. LIKE LARGE CITIES, SMALL CITIES DESIRE DIRECT ENTITLEMENT FROM THE FEDERAL GOVERNMENT WHENEVER MEANINGFUL LEVELS OF FUNDING COULD BE DISBURSED THROUGH SUCH ENTITLEMENTS.

WE, AT NASCO, HAVE CONCLUDED THAT IT IS FEASIBLE TO PROVIDE DIRECT ENTITLEMENTS OF COMMUNITY DEVELOPMENT BLOCK GRANTS TO ALL MUNICIPALITIES AND TOWNSHIPS OVER 10,000 IN POPULATION. ATTACHED TO THIS TESTIMONY IS A PROPOSED AMENDMENT TO THE HOUSING AND COMMUNITY DEVELOPMENT ACT THAT WOULD CREATE A CDBG ENTITLEMENT PROGRAM FOR SMALLER UNITS OF LOCAL GOVERNMENT AND MODIFYING CERTAIN OTHER PROVISIONS CONSISTENT WITH THIS OBJECTIVE INCLUDING A SIMPLIFIED APPLICATION PROCESS FOR TOWNS UNDER 10,000 IN POPULATION.

REGRETABLY IT WAS NOT FEASIBLE TO DEVELOP AN ENTITLEMENT SYSTEM FOR COMMUNITIES UNDER 10,000 USING STRICTLY HUD AUTHORIZATION. ONE WOULD BE ABLE TO FURTHER LOWER THE THRESHOLD IF DEPARTMENT OF AGRICULTURE'S COMMUNITY AND ECONOMIC DEVELOPMENT FUNDS WERE COMBINED WITH HUD. WE WOULD RECOMMEND THAT DURING THE NEXT YEAR THIS MATTER BE EVALUATED.

THERE IS ALSO AN EXPLANATORY STATEMENT ACCOMPANYING THIS PROPOSED BILL WHICH GOES INTO THE PURPOSE OF THE VARIOUS SECTIONS OF THE PROPOSED ACT AS WELL AS PROVIDES THE RATIONALE FOR THIS SUGGESTED LEGISLATION.

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NATIONAL ASSOCIATION OF SMALLER COMMUNITIES

WE WOULD HOPE YOUR COMMITTEE COULD TAKE THIS PROPOSED AMENDMENT UNDER CONSIDERATION DURING YOUR CURRENT DELIBERATION ON HUD AUTHORIZATIONS. IN OUR VIEW, IT IS A CONSTRUCTIVE ALTERNATIVE TO THE TRANSFERRING OF THE SMALL CITIES PROGRAM TO THE STATES.

IF CONGRESS WOULD ENACT THIS LEGISLATION SOME 2465 UNITS OF LOCAL GOVERNMENT IN BOTH METROPOLITAN AND RURAL AREAS OF THE COUNTRY WITH A COMBINED POPULATION OF 49,700,000 WOULD HAVE DIRECT ACCESS TO COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS AND ASSURED ANNUAL FUNDING UPON WHICH THEY CAN COUNT IN LOCAL PLANNING.

WE WISH TO THANK THE MEMBERS OF THE COMMITTEE FOR THE KIND ATTENTION GIVEN TO OUR PRESENTATION AND WE THANK YOU FOR INIVITING US TO THESE HEARINGS.

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AN ACT

To amend the Housing and Community Development Act of 1974 as amended by creating a community development block grant entitlement program for smaller units of local government and modifying certain other provisions consistent with this objective.

Section 1. Section 101(d)(1) of the Housing and Community Development Act of 1974 as amended is further amended by deleting the phrase "upon which communities can rely in their planning" and substituting therefor "upon which metropolitan cities, urban counties, and smaller communities can rely in their planning."

Section 2. (a) Section 102(a)(4)(B) is hereby deleted and the following shall be substituted in its place:

"(B) any other city which has a population of fifty thousand or more.

(C) any city which has been classified as a metropolitan city under clauses (A) and (B) shall continue to be so classified notwithstanding a subsequent loss of designation as a central city or a subsequent reduction in a city's population to less than fifty thousand."

(b) Section 102(a)(6) is hereby revised to read as follows:

(6) The term "urban county" means any county within a metropolitan area which qualified as an urban county in fiscal year 1981 or any other county which in fiscal year 1982 or thereafter has a population of 200,000 or more including its unincorporated areas and smaller communities but excluding the population of metropolitan cities.

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(c) Section 102(a) is hereby amended to add at the end thereof the following:

(21) The term "smaller community" means any unit of general local government which is not a county nor a metropolitan city and which has a population of 10,000 or more.

(d) Section 102 (d) and (e) are hereby deleted.

Section 3. (a) Section 104(b)(3) is amended to read as follows:

"(3) The Secretary shall waive (i) all of the requirements of paragraphs (1), (2) and (4) of subsection (a) for all applications for assistance on behalf of a unit of general local government which does not receive annual entitlement provided the application does not involve a comprehensive community development program; and (ii) the Secretary shall impose the requirements of paragraph (6) of subsection (a) in connection with full application submittals and not in connection with any pre-applications by applicants which do not receive annual entitlements."

(b) The first paragraph of Section 104(c) is revised by by deleting "106(b) unless" and inserting "106(b) and (c) unless"

(c) Section 104 (j) is hereby deleted and the following is substituted in its place:

"(j) In any case in which a metropolitan city and/or a

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smaller community(s) are located in whole or in part within an urban county, the Secretary may, upon a joint request, approve the inclusion of the metropolitan city and/or small community(s) as part of the urban county for purposes of planning a joint community development program meeting the application requirements of this section and implementing a joint community development program."

Section 4. (a) The last portion of the first section of 106(a) is hereby modified by deleting "80 per centum shall be allocated by the Secretary to metropolitan areas" and inserting the following in its place: "65 per centum shall be allocated by the Secretary to metropolitan cities and urban counties, 25 per centum shall be allocated to smaller communities and 10 per centum shall be allocated to other units of general local government.

(b) Section 106(b)(4) is hereby revised by deleting the "," between "subsection, except" in the first paragraph and inserting the following at this point:

"and there also shall be excluded the population of smaller communities located within the county,"

(c) Section 106(c) (1) and (2) is hereby deleted and the following inserted in its place:

"(c) the twenty-five percent allocation to smaller communities shall be made available to each smaller community as an entitlement based on its proportionate share of the total

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calculated as a percentage that the population of such smaller community is to the total population of all eligible and participating smaller communities."

(d) Section 106(d) is hereby deleted and the following substituted in its place:

"(d) Any amount allocated to a metropolitan city, urban county or smaller community pursuant to the preceding provisions of this section for which applications are not filed during a program period or which are not approved by the Secretary shall be reallocated in the next fiscal year for use by other units of general local government under section (e)."

(e) Section 106(e)(1) is hereby deleted and the following substituted in its place:

"(e)(1) The amounts allocated to non-entitlement units of general local government under this section shall be utilized by the Secretary for grants to units of general local government allocating to each State its proportionate share of the total calculated as a percentage that the population of that State's non-entitlement areas is to the total population of all States' non-entitlement areas."

(f) Section 106(e)(3) is hereby deleted and the following substituted in its place:

"(3) any amounts allocated to a unit of general local government under paragraph (1) for which applications are not filed during a program period shall be reallocated for use by other units of general local government in that State in the next subsequent fiscal year.

(g) Section 106(g) is hereby

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September 3, 1981

Rep. Lee H. Hamilton
M.C. Chairman
Joint Economic Subcommittee
United States Senate
Washington, D.C. 20510

Dear Congressman Hamilton:

As per your request I am submitting my views on the new "Block Grant Program."

One of the first priorities will be to establish a distribution formula that will remove all chances of "Political" favoritism.

I feel sure that if a non-partisan panel selected to oversee the distribution were established, it would remove much of the fears that exist about the State being the prime sponsor.

Being from a small community of 3042 population, it is only natural for me to feel strongly that under the present program we have been discriminated against.

At present we are forced to compete against each other for our "Block Grants" while S.M.S.A.'s are automatically eligible to receive C.D.B.G. funds.

It is imperative that a different criteria be established for rural communities.

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Under the present program, too large a percentage of "Grant" funds are dissipated thru the necessity of hiring professional firms to administer grants due to the complicated and meaningless red tape and regulations.

Professional planners and engineering firms have reaped a bonanza from all of the Grant programs in the past.

The bottom line being that too small a percentage of the grant money has actually reached the intended recipients.

I would suggest a distribution formula similar in concept to the "Revenue Sharing Program," with several exceptions:

1. Each municipal unit be required to submit a program containing specific needs within a preset criteria established by the "Non-Partisan Panel."
2. That the distribution not be based on "tax effort," as this clearly discriminates against communities that have shown proven fiscal responsibility and rewards those that have not.
3. Set a definite time frame for the submission of the proposed plans.
4. If approved plans are not submitted within the time frame the involved municipalities would not be eligible to receive funds until the next fiscal year.
5. The funds not applied for could be set up in an "Emergency Fund" for distribution to distressed cities hit by unexpected high unemployment or other fiscal disasters.

In regards to the criteria established by the panel, I would suggest that the panel keep in mind that small rural Indiana communities do not have high percentages of minorities or in most cases extremely high percentages of unemployment, but we do have a disproportionate share of the Elderly and disadvantaged citizens of Indiana.

Because of the recent "Home Rule" legislations success in being passed by the General Assembly, it reflects the position that local government can best manage its own affairs.

This attitude should also be carried thru in establishing the new Block Grant program, and all municipalities should have an equal share of the Grant distribution.

After all, it is our tax dollars that are in question. Why then should we not receive our fair share?

Wayne VanSickle
Mayor City of Delphi
Indiana

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cc

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